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BACKGROUND BOOK

on

AGRICULTURAL AND FOOD POLICY ISSUES

Prepared for

the

ASSISTANT SECRETARY FOR AGRICULTURAL ECONOMICS

By the

ECONOMIC RESEARCH SERVICE

JANUARY 1977

**United States
Department of
Agriculture**



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AGRICULTURAL AND FOOD POLICY ISSUES

Preface

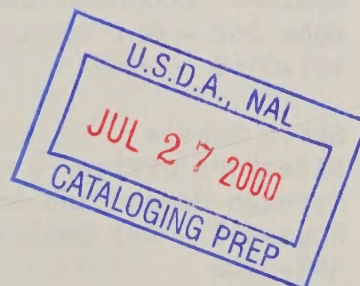
A number of policy and program issues will confront the Department and the Assistant Secretary for Agricultural Economics during the course of 1977. Issues likely to immediately confront the Administration are treated in the accompanying briefing paper, "Perspectives on Key Issues in Agriculture and Food." The central purpose of this more comprehensive report is to supplement the material in the briefing paper and to provide relevant background information on longer-term issues. This report should also serve as a directory of additional economic studies and the associated persons who might be drawn upon for in-depth analyses in the specific areas.

Issues treated in this report are organized around four major areas: consumer, farm, international, and resource and development. Some issues are immediate, such as expiration of existing major commodity legislation while others are of a longer run nature affecting producers, consumers, and the future course of the food and agricultural sector, both nationally and internationally.

The report was prepared by economists in the Economic Research Service under the direction of a steering committee composed of members from each of its Divisions. The steering committee is listed on the following page.

It is hoped that this report will serve as a useful reference for the incoming Assistant Secretary and his staff as they begin to formulate policies and treat emerging issues.

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January 1977



AGRICULTURAL AND FOOD POLICY ISSUES

A Report to the
Assistant Secretary for Agricultural Economics

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AGRICULTURAL AND FOOD POLICY ISSUES

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I. CONSUMER RELATED ISSUES

Retail Prices, Price Spreads, and Returns to Producers

Issue

Department officials will continue to be faced with the perennial questions: Why are food prices rising? Why don't they drop when farm prices decline? Who gets the consumer's food dollar? Are profits of food marketing firms reasonable? What is being done to develop food policies to lower food prices and/or increase returns to farmers? What is being done to insure an adequate food supply?

Background

Consumers have often attributed rises in food prices to increases in marketing costs and profits, and characteristically farmers have believed that prices they receive for products are unnecessarily low because "marketing costs are too much." Dissatisfaction with food prices at retail levels is sometimes expressed by the Department in news releases--particularly when declines in farm prices are not quickly or adequately reflected at the retail level.

In the past several years, food prices, marketing costs and consumer food expenditures have increased at rates which few had previously considered possible.

Larger food supplies in 1976 and an easing of inflationary pressures greatly slowed the rise in food prices and prospects appear good for 1977. The modest increase in retail food prices in 1976 came from widening farm-retail spreads; returns to farmers for most commodities declined. Among major foods, price spreads increased most for those commodities showing the sharpest decline at the farm, including beef, pork, and grain (bread). The spreads for individual foods tend to widen in the short run when farm prices are falling and narrow when farm prices are rising. "Sticky" retail prices may result from retail and processor pricing practices which stress price stability and department margins as well as changes in supply and demand conditions after products are sold by farmers.

A recent study of 23 foods revealed that on the average it takes several months for the major impact of a change in farm prices to be registered at the retail level. However, over time, widening spreads appear to result from a cost-push due primarily to economy-wide circumstances which are largely beyond the control of the participants in the food industry.

Options

The Department can do several things to promote a competitive and efficient food industry. The Department may:

1. Propose new legislation on food policy and programs.
2. Expand research to monitor the performance and to promote improved efficiency in the food industry.
3. Encourage alternative marketing systems such as direct marketing and consumer cooperatives.
4. Support a sound trade policy for agricultural products.
5. Encourage monetary and fiscal policies to control inflation and reduce unemployment in the general economy.
6. Encourage public assistance food programs for qualified consumers and credit programs for farmers which serve the interest of both farmers and consumers.

Role of USDA and ERS

In recent years the Department has pursued policies to encourage a food production and marketing system which provides consumers their choice of food at the lowest prices consistent with reasonable returns to farmers and marketers.

In addition to the broad departmental program of biological, structural and utilization research, ERS continuously monitors and analyzes differences in prices between farmer and consumer. When farm prices drop as they did for many commodities in recent months, and when retail prices are slow to reflect these changes, our regular publications and special news releases are valuable for pinpointing the developments and putting them into perspective.

Research Available or Underway

The Department has a major role in developing and maintaining information to monitor the economic performance of the food industry. ERS maintains the following major statistical series to monitor the food situation: (1) the monthly market basket statistics; (2) monthly farm-retail spreads for individual foods; (3) the annual farm food marketing bill and its components by marketing agency, cost, and profits categories; and (4) components of farm-retail spreads for individual foods. Related series include: (a) annual estimates of output per man-hour in factories mainly engaged in processing farm originated foods; (b) quarterly indexes of prices for intermediate goods and services purchased by food marketing firms; (c) annual indexes of railroad freight rates; (d) profit ratios of

leading food chains, food manufacturers and meat packers; (e) hourly earnings of workers employed by food marketing firms; (f) hours of labor needed to buy certain food items; (g) unit labor costs; (h) food consumption, supply and utilization; and (i) percent of income spent for food.

In addition, special studies of the structure and performance of the food industry are available or underway in ERS, the Council on Wage and Price Stability, the Federal Trade Commission, and several universities. Areas identified for additional research emphasis next year are farm credit and domestic food assistance programs. Additional economic information is needed to improve the administration of Government programs in these important areas which now account for a major portion of the Department's budget.

Contact

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Market Orders and Undue Price Enhancement

Issue

A legal question revolves around the treatment of undue price enhancement under Section 2 of the Capper-Volstead Act. A policy question is how much price enhancement should USDA foster through the operations of marketing orders for milk, fruits, vegetables, and specialty crops?

Background

The problem of prices which are "too high" arises in a legal sense from the provision of the Capper-Volstead Act which requires the Secretary of Agriculture to take legal action against a cooperative which has unduly enhanced prices. The Act permits farmers to act together in marketing without violating the antitrust laws. Section 2 provides that if the Secretary has reason to believe that any association monopolizes or restrains trade to such an extent that the price of any agricultural product is unduly enhanced, he shall take prescribed legal actions, leading to the issuance of a cease and desist order against monopolization or restraint of trade. Thus, undue price enhancement is identified as the existence of prices higher than warranted by economic conditions because of monopolization or restraint of trade by one or more cooperatives.

How does one know that prices are too high? Looking at the prices themselves provides no answer. An analytical framework--a set of standards--is needed. Operational standards for judging whether or not prices are too high are provided by looking for consequences of prices higher than those justified by economic conditions. Consequences must be viewed over a period long enough to separate the results of transitory events from those more nearly reflecting the underlying conditions of the market. If the supply of the commodity in question is controlled, the consequences of prices that are too high for economic conditions will be excess profits to those exercising control over supply or benefiting from it. If the supply is not controlled, prices that are too high will bring forth excess production.

The Department recently concluded consideration of a petition submitted by the National Consumer's Congress charging undue price enhancement by milk cooperatives. This case provides an example of the application of the criteria discussed above.

The policy question, as distinct from the legal question, is to what extent does the Department wish to encourage, through market orders or other means, the development of market power by cooperatives? The development of such power will lead to price enhancement but not necessarily to undue and illegal price enhancement.

Options

The Department can continue to act solely on the basis of complaints received from the public. Until the 1976 petition from the National Consumer's Congress, all complaints had been made by business firms which felt they had been damaged by cooperative actions.

The alternative is to establish a monitoring procedure which would regularly screen the prices of a large number of agricultural commodities marketed by cooperatives for signs of unusually high prices or rapid increases. These would then be subjected to analysis to determine if there were indications of undue price enhancement due to monopolization or restraint of trade. A beginning has been made at outlining such a screening system but much more work is needed to complete the design. Such a system would require a staff and extensive use of computers.

Almost all of the handling of Capper-Volstead cases in the past has been conducted internally. That has resulted in a widespread impression that there has never been a Capper-Volstead case. There is also a widespread impression that no one knows what undue price enhancement is; in other words, that there are no standards. In view of these conditions, one alternative is to engage in a public procedure of some type to solicit views on what procedures and standards should be and subsequently to issue a Departmental statement setting forth both standards and procedures.

On the policy question of price enhancement through marketing orders, some changes in procedures have been made in the last 2 years as a result of the work of an Interagency Task Force. These have forced fuller consideration of the price impacts of market order actions. One alternative is to seek wider review (outside AMS) of the proposed market order actions, in terms of their price impacts, either from ERS or from an analytical staff unit in the Secretary's office.

Role of USDA and ERS

The Secretary has delegated his authority for consideration of cases of undue price enhancement to a committee consisting of the General Counsel as Chairman, the Assistant Secretary for Marketing and Consumer Services, and the Assistant Secretary for Agricultural Economics. In the milk cooperative case, a subcommittee consisting of personnel from AMS, ASCS, FCS, OGC, and ERS conducted the analysis.

Research Available

Report of the Capper-Volstead Subcommittee on the milk cooperative case and background materials, USDA, December 1976.

"The Impacts of Federal Market Order Programs," report of the Interagency Task Force, USDA, January 1975.

(See also the discussion related to dairy cooperatives in the Commodity Associated Marketing and Regulatory Issues Section.)

Contact

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Welfare Reform and USDA Food Assistance Programs

Issue

How should the current welfare system be improved including the USDA's food assistance programs?

Background

Costs of and participation in Federal public assistance programs keep rising. The major welfare programs are administered by three departments, making coordination difficult. HEW administers Supplemental Security Income, aid to families with dependent children, and several other public assistance programs. HUD administers housing assistance and is experimenting with a housing allowance program. USDA administers food stamps, school breakfast and lunch, and other nutritional programs. The USDA programs are the largest of the above public assistance programs. These programs, when combined, do not treat all persons equitably and, in many cases, discourage work. Considerable interest is evident for overhauling this welfare system. The impact on the USDA depends substantially on the new Administration's specific approach to any welfare reform plan.

The Food Stamp Program, the largest of the USDA food assistance programs, was started on a pilot basis in 1961. It was expanded to a national program in 1964 and was made mandatory in all counties in 1974. As a result, family food programs have shifted emphasis from diet supplementation to a full nutrition concept. The Food Stamp Program became the national approach to food assistance for families, displacing the food distribution program almost entirely. National income and other standards for program participation replaced divergent State and local standards.

Participation in and costs of the Food Stamp Program increased rapidly as the program expanded into all areas of the country including Puerto Rico. Participation reached a peak of 19.3 million in April 1975 during the recession, and declined to 17.3 million in September 1976 as a result of improved economic conditions. Approximately two-thirds of the households receiving food stamps are recipients of benefits from other public assistance programs.

Child nutrition programs have been the USDA's responsibility since the 1930's. They have grown continually since World War II. These programs provide cash and food assistance to help support food services for children in public and nonprofit private schools, residential child care institutions, child care centers, settlement houses, summer camps, and recreation centers. About 4.9 billion meals were served children in Fiscal 1976, the bulk being served in the national school lunch program. Federal payments totaled \$2.3 billion, most of which was cash provided to the States.

Options

Two general approaches appear to be emerging in attempts to curtail growth in public assistance outlays and improve equity and efficiency.

The first approach is to replace the current welfare system with a single broad-based income maintenance program, with most proposals involving some form of negative income tax. The Joint Economic Committee's ABLE program, or variants thereof, has been suggested by Congress. The Ford Administration had been developing a similar proposal called ISP. If the Carter Administration were to adopt this general option, the USDA's Food Stamp Program would most likely be abolished. It is less clear what might happen to the School Lunch and WIC programs under this general alternative.

The second approach is to retain the current array of categorical programs but initiate reforms to simplify rules and regulations and improve the interaction between programs. This option would directly affect USDA. Reforms in the Food Stamp program could be initiated by Congress, perhaps as part of the new farm legislation, or by executive order. For example, the Senate Committee on Agriculture and Forestry reported out S.3136 (National Food Stamp Reform Act of 1976) in March 1976, calling for modifications of the food stamp program. A slightly different version was introduced in the House. Modifications suggested most recently include: (1) abolish the purchase requirement under the current program and provide stamps equal to the current bonus value, (2) substitute a standard deduction for the current extended system of deductions in determining net income for eligibility, (3) adopt a common definition of income for all programs including food programs, (4) adopt a uniform rate at which the bonus is reduced per dollar of increased net income, and (5) grant authority for the Department to carry on demonstration projects to experiment with alternative administration techniques. These and other options will undoubtedly be considered in the next session of Congress.

Role of USDA and ERS

The Food and Nutrition Service administers the food assistance programs, including some program evaluation research. ERS provides some research information on the impact of food programs and on replacing current food programs with broad-based income maintenance systems.

Research Underway or Available

ERS is exploring alternative broad-based income maintenance programs such as ABLE for impacts on Federal government costs and regional-residential distribution of eligibles and benefits. Such programs generally redistribute benefits from urban areas to rural residents and from other regions to the South. Certain provisions of these proposals impact inequitably upon farmers. Generally, farm subsidy payments offset program benefits on a dollar for dollar basis. No consideration is given

to costs incurred by the farmer in complying with program rules. Also, an asset income imputation procedure is often included which greatly affects benefit levels for farm families.

FNS has undertaken studies to identify the eligible population, evaluate the impact of food programs on the U.S. economy, and measure the benefits to poverty households of participating in USDA food assistance households. Some of the studies were carried out under contract with ERS. An estimated 29.4 million persons participated at some time during 1974 out of a total 40.6 million eligible persons, suggesting a participation rate of 72 percent. One study estimated that Gross National Product was \$427 million more in 1974 as a result of the food stamp program. Total business receipts were higher by \$1.2 billion, with most benefits going to the food manufacturing sector. Food stamps yield both income and food benefits, depending on recipients' expenditures for food in the absence of stamps. Bonus food stamps appear to be at least 50 percent effective in increasing food expenditures. Additional studies are under way to evaluate the USDA's food programs.

"Economic Effects of the U.S. Food Stamp: Calendar Year 1972 and Fiscal Year 1974," Economic Research Service, AER No. 331, July 1976.

"Economic Effects of Federal Contributions to the U.S. School Lunch Program: Calendar Year 1972 and Fiscal Year 1974," Economic Research Service, AER No. 350, September 1976.

Food and Nutrition Service, "Program Evaluation Status Reports: Completed Studies," USDA, October 1976.

Food and Nutrition Service, "Annual Statistical Review, Food and Nutrition Programs. Fiscal Year 1976: Preliminary Report," USDA, FNS 161, November 1976.

"The Residential Distribution of Benefits Under ABLE," Economic Research Service, EDD, (manuscript in process), January 1977.

Contact

For research on food assistance programs, contact Stephen Hiemstra, FNS (447-8044) and Alden Manchester, ERS (447-8707). For research on impacts of negative income tax type plans, contact Thomas A. Carlin, ERS (447-8780).

II. FARM RELATED ISSUES

ISSUES RELATED TO EXPIRATION OF THE 1973 ACT

Overview

There are three broad options available to the Executive Branch and Congress: (1) develop and enact new legislation for expiring farm laws (2) extend existing legislation with minor modifications or (3) let the old laws die and revert to existing permanent legislation.

Although existing laws remain in force for the 1977/78 crops, immediate action is required because of the schedule mandated by the Congressional budget process and because of the practical need to have programs in place before the 1978/79 crops are planted. The Congressional budget process timetable requires that legislation for 1978/79 crops be reported out of committees by May 15, 1977. Planting of 1978/79 winter wheat begins in September 1977.

The 1973 Act includes the major commodity programs for wheat, feed grains, and cotton. It also authorizes the price support incentive payments for wool producers, the beekeeper indemnity program, the dairy indemnity program, and the Class I base plans in federal order milk markets. The 1975 Rice Act contains provisions applicable only to rice.

There are other commodity programs not expiring but which could be revised or replaced in 1977 by Congress. These include dairy, peanuts, tobacco, and ELS cotton. Of these, there has been considerable pressure to modify the peanut program. Since Congress is expected to take action on the commodities in the acts that expire as well as on peanuts, it may view this as a propitious time to review the other programs as well.

The longstanding U.S. Sugar Act expired December 31, 1974. Although no program exists, some control is still present through Executive Branch authorities. However, Congress has little influence on these authorities. Because of this and because sugar prices at the producer level are low at this time, it is likely that sugar legislation will be proposed in the Congress.

The present juncture for commodity programs gives Congress and the Department an opportunity to reexamine program fundamentals including the degree to which U.S. Agriculture should be regulated. Choices lie between the extreme ranges of high price and income supports with strict government mandated production guidelines and minimum or no price and income supports with few or no production guidelines.

Several general issues will be the focus in formulation of successor legislation to the 1973 Act. These include: (1) the level of commodity price and farm income support, (2) the extent and method of government compensation for the risk of natural hazards in agriculture, (3) the need and objectives of a commodity reserve, (4) the role of allotments and bases

in the administration of programs and how these allotments and bases should relate to present production patterns, (5) the need for and methods of adjusting production, (6) the need for and objective of payments limitations, and (7) a determination of which commodities to include in the major legislation.

Role of USDA and ERS

It is the responsibility of the Department of Agriculture to administer legislated commodity programs. ERS, along with ASCS and other agencies within the Department, provides analysis of relevant issues in an economic context as to costs, benefits, and tradeoffs. From this vantage, the Department contributes to the process of commodity legislation by identifying issues, providing relevant analyses, and in some cases preparing legislative proposals.

Wheat, Feed Grains, and Upland Cotton

Issue

The level of loan rates and target prices specified in replacement legislation is the focal issue. Related issues pertaining to these and other crops are (1) producer allotments and set-aside provisions and (2) disaster payments, crop insurance, and emergency loans. (The latter issues are treated in separate sections.)

Background

A unique feature of the 1973 Act was the introduction of the target price concept. Its purpose was to provide a basis for varying support payments to producers inversely with the market price. Under this concept, no payments are made if the market price is at or above the target price. If the market price goes below the target price, support payments are based upon a differential that is the smaller of the difference between the target price and the market price or the target price and the loan rate.

Deficiency payments are viewed as income supplements to producers, moderating the effects of short-term price fluctuations. With target prices the income of farmers can be supported somewhat without the necessity of high loan rates.

Parity prices have been used in the past as a basis for support rates. Unit production costs are being proposed as a basis for determining the support rates. Parity prices are widely considered to be outdated as a measure of an equitable price. The practice of setting support as a percentage of parity, then, is looked upon as being arbitrary. Unit cost of production proponents feel the cost of production measure relates more directly to the price producers should receive in order to earn an equitable return. However, there is a problem of determining which cost components to include in a cost of production measure. Specifically, should land and management charges be included and if so how should they be measured? Production costs are highly variable among farms and among regions. Support at average cost of production would assure profits for some producers but would not cover the costs of others.

Consideration must be given to the relationship between U.S. support prices and world market prices. If U.S. support prices are above world prices the result can be reduced exports or a need to pay export subsidies in order to meet foreign competition. High U.S. price supports may also function as an umbrella for world prices, stimulating added production in competing exporting countries as well as in importing countries.

To the extent that price supports encourage production at levels that exceed utilization, supports are a cause of stock buildups. These stocks may become "surplus." Policy actions to offset these surpluses could be any one or a combination of production controls, accumulation of stocks by the government or subsidized exports including foreign aid shipments.

These actions all involve a cost. The relationships are such that support rates, production control, and stock accumulation provisions are interrelated. A total program that would be complementary would require attention to these factors as a package.

Tying supports to a specified measure, whether it be parity or cost of production, may distort price relationships among crops. Producers may produce on the basis of support levels rather than on the basis of market expectations. The result could be a surplus of one crop at the same time there is a shortage of a substitutable crop.

For a program that has both loan rates and target prices, there is the consideration of the differential between loan rates and target prices. This differential relates to the potential level of deficiency payments. This factor is especially important in considering mechanisms to adjust loan rates and target prices over time. Automatic adjustments could lead to wide differentials leaving the Treasury exposed to very large deficiency payments. Automatic adjustment mechanisms may result in support levels that are either too high or too low in relation to emerging market conditions. Adjustment formulas based on production costs could lead to a support price spiral if supports affect production costs. This is especially likely if production costs include land costs.

A \$20,000-per-person payment limitation, included in the 1973 Act, could be a factor in reducing government costs. It could also be a factor in limiting participation if production adjustments are required in order to be eligible for support. There is a question of whether the payment limit should be increased to take account of inflation.

The structure of a payment limit might be quite different depending on its purpose which could include objectives to: (1) Channel benefits to smaller farms, (2) eliminate the very largest payments, (3) limit total Government expenditures, or (4) be crop selective in limiting payments.

Payment limits do not currently apply to loans. High supports in the form of loans would not be affected by payment limits, but high supports in the form of target prices could be substantially affected by payment limits.

Options

A. Alternative loan rate and target price levels and the implications

- (1) Loan rates above average market clearing levels (high loan rates) and no target prices. Standby production control would be needed to prevent the buildup of surpluses. This option would give price stability. Special export programs would be needed to move production into foreign markets.
- (2) High loan rates and high target prices. All of the implications of (1) above plus the potential for large direct Treasury costs.

Production controls could serve a dual function of preventing stock buildup and stimulating prices in order to reduce deficiency payments.

- (3) Loan rates below average market clearing levels (low loan rates) and variable target prices. This option would provide a price floor in the case of very low prices while providing income protection through the target price deficiency payment. This option would have the potential of large Treasury costs depending on the loan-target price differential. Price instability could be relatively greater than for options (1) and (2).
- (4) Low loan rates and no target prices. This option provides a price support floor but no direct income transfer payments. The likelihood of the government acquiring stocks would be reduced. Price instability would be similar to option (3). Periods of low farm income could occur.

B. Price support adjustment provisions

- (1) Allow the Secretary considerable discretion in setting loan rates and target prices in response to emerging supply and demand conditions.
- (2) Adjust support rates on the basis of cost of production. There is a difference between setting supports at the cost of production or as a proportion of cost of production and using changes in the cost of production to adjust supports. Support rates become capitalized into land values so, if land values are included in cost of production, this adjustment mechanism could have a built-in upward spiral.
- (3) Adjust support rates on the basis of aggregate price indexes. Price indexes that measure cost levels of farm-related inputs would be considered. Several different indexes could be used depending on which input price series were to be included. Input price indexes would be a proxy for changes in costs faced by farmers but they do not reflect changes in input combinations or yields as would unit cost of production measures.

Research Available or Underway

Agricultural-Food Policy Review, AFPR-1, ERS, USDA, January 1977.

Farm and Food Policy 1977, Committee Print 75-404, Senate Committee on Agriculture and Forestry, U.S. Congress, September 1976.

Economic Issues in 1977 Farm Legislation, Staff Paper, Council of Economic Advisors, December 1976.

Food and Agriculture Policy Options, Budget Issues Paper, Congressional Budget Office, U.S. Congress, January 1977.

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Disaster Payments, Crop Insurance, and Emergency Loans

Issue

What is the appropriate role of the Federal Government in providing risk protection against natural hazards faced by farmers? This is an immediate concern as the Disaster Payment Program (DPP) is authorized by and expires with the Agriculture and Consumer Protection Act of 1973. The DPP program cost \$840 million during the first 2 years of operation (with no direct cost to producers) and has been viewed as costly by the Administration and inefficient by some. Popularity of DPP with farmers, rural businesses, and credit suppliers suggests there will be demands to continue some type of disaster relief programs.

Background

The Federal Government has offered risk protection to farmers through the Federal Crop Insurance Corporation (FCIC). Not all producers are eligible for FCI because FCIC is required to operate a sound program with authority to refuse insurance in areas of excessive risk.

If a county or group of counties is declared an emergency area by the Farmer's Home Administration (FmHA) or by the Secretary, FmHA offers subsidized loans to cover losses, to make physical adjustments and to meet operating expenses to allow continued operation.

The Agricultural Stabilization and Conservation Service offers emergency area assistance including: (1) sale of Commodity Credit Corporation owned feed grains, (2) grazing and haying privileges on retired croplands and, (3) emergency conservation measures.

The private insurance industry has traditionally offered protection against hail and fire but has not been successful in offering multiple-peril crop insurance on any scale.

The 1973 Act initiated the DPP to protect producers of corn, grain sorghum, barley, wheat, and upland cotton against loss of income due to natural hazards that either prevent planting a crop or that cause crop yields to be lower than normal. The DPP was adopted with little consideration of how the specific provisions would work and with little knowledge of likely costs to the Government. The DPP has been much larger than FCIC both in terms of indemnities and participation levels. FCIC paid out \$126 million during 1974 and 1975 compared to \$840 million paid under DPP.

Several problems have become apparent from experience gained during the operation of the DPP. The more critical problems are:

1. Determination of eligibility for benefits is based on two-thirds of the "established yield" (administratively determined, generally based on a 10-year average). The payment to eligible farms is made on the entire

one-third short-fall. But, one bushel or pound of production above the critical eligibility level means a producer gets no payment at all.

2. Provisions allowing producers to receive payments if prevented from planting are difficult to administer and subject to abuse; it is often a matter of judgment whether plantings could have been made under marginal moisture conditions.
3. Cotton receives special treatment under the prevented planting option since benefits can be received even if another crop is later planted and harvested. Planting a substitute crop for wheat or feed grains reduces prevented-planting payments proportional to the production from the substitute crop.

Options

A wide range of options may be considered through development of new legislation including:

1. Renew DPP with no changes in FCIC or FmHA. Renewal could be for 1 year or longer.
2. Allow DPP to expire with no changes in FCIC or FmHA.
3. Allow DPP to expire but invite the private insurance industry to offer multiple-peril crop insurance. Make actuarially sound reinsurance available through FCIC as a means of spreading risk.
4. Drop DPP but expand the FCIC program including appropriations for operating and administration costs so that it could be offered nationwide. A premium subsidization and added sales efforts would be necessary to encourage participation if FCI was offered in all areas.
5. Renew but modify the DPP to make protection more in line with the needs of producers and to remove some of the unsound provisions, including the special treatment for cotton.
6. Eliminate the current overlap between programs. For instance, require the purchase of FCI, if available, in order to be eligible for disaster payments or by not offering DPP to producers eligible to purchase FCI.
7. Develop a mixed strategy which combines FCI and FmHA emergency loans to complement each other in achieving nationwide coverage for all major crops. Each program would probably require some modification so that the two would reinforce each other to minimize costs. For such a mixed strategy, costs could likely be held to about 25 percent of coverage for any program level.

Implications

Congressional action will affect the extent of coverage of natural disasters faced by farmers, the rate at which they are indemnified, and the costs of this protection to taxpayers. The ability of farmers to purchase inputs and obtain credit in years of low crop yields may be dependent upon the level of disaster protection provided. To the extent that benefits are capitalized in the land values, any governmental role in financing the program could affect the prices paid and received for land. Farm income protection is important not only to farmers but also to their communities. Entire communities may find their economies under stress in years that farmers have poor crops; the severity of this impact may be alleviated through effective disaster protection programs.

Research Available or Underway

An Assessment of Options for Improving Government Programs to Alleviate Agricultural Producers Crop Losses from Natural Risks, APA Staff Paper, ERS, USDA, December 1976.

Alleviating Agricultural Producers' Crop Losses: What Should the Federal Role Be? RED-76-91, U.S. General Accounting Office, Washington, D.C., May 4, 1976.

"Selected Options for Improving Government Programs That Protect Crop Producers from Natural Risks," in Agricultural-Food Policy Review, AFPR-1, ERS, USDA, January 1977.

Contacts

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Producer Allotments and Set-Aside

Issue

Current acreage allotments, established 15 to 25 years ago, do not accurately reflect existing production patterns on individual farms. Updating acreage allotments raises questions of equity among producers in the application of programs incorporating allotment related provisions.

Background

Commodity program crops have an acreage allotment as part of the program structure. This includes quota crops (tobacco, peanuts, and ELS cotton) and non-quota crops (wheat, feed grains, cotton and rice). For quota crops, the allotment production is generally the maximum that a farmer is allowed to produce. Allotments do not limit the production of non-quota crops under current programs.

National acreage allotments are apportioned to individual farmers on the basis of production history. Feed grain allotments were established on the basis of production in 1959-60, for wheat 1952-53, for cotton the mid-fifties, and for rice 1951-54. There is more flexibility associated with cotton and rice allotments than with wheat and feed grain allotments since the former can be transferred within a state through sale, lease, or release and reapportionment. Wheat and feed grain allotments cannot be transferred.

Allotments serve three functions under current programs:

- (1) When set-aside is required, allotments provide the basis for calculating each participant's share of the set-aside.
- (2) Allotments are used as part of the formula for calculating deficiency payments for individual producers.
- (3) Allotments are used in the determination of disaster payments. If a producer is prevented from planting or if his production is less than two-thirds of his allotment based production, he is eligible for disaster payments.

Because allotments no longer match present production patterns on individual farms, deficiency or disaster payments may be paid to farmers for crops they no longer grow. Other farmers may grow a crop eligible for payments but, because they have no allotment or an allotment considerably smaller than their crop acreage, they will receive a smaller payment than they would be entitled to based on current production patterns. If set-aside requirements reappears, producers who have outdated allotments will not share equitably in the production adjustment burden.

There is not a one-to-one correspondence between the acreage of set-aside and the reduction in crop acreage. Slippage is a measure of the

degree to which the acreage reduction in crops falls short of matching the acreage of set-aside. The degree of slippage varies among farms causing inequities. Some farmers have to make full adjustments while other farmers make only partial adjustments. Because of slippage, set-aside acreage has been only about 50 or 60 percent effective in reducing crop production.

Options

Allotments could be updated in several ways. A moving average over recent years could be used, or more recent base years could be selected for individual crops. Another alternative could be a total cropland allotment.

A major problem in establishing new allotments is that some farmers always view the base period selected as abnormal for them. This problem could be minimized if allotments were transferrable or if provisions could be made for annual adjustments.

Two requirements are needed to reduce slippage. One is to accurately classify land in farms so that non-cropland does not qualify for set-aside and to assure that farmers are not planting crops on land that they would not normally crop. The other is to require, in fallow areas, that bona fide fallow be separate from set-aside.

Implications

Allotments were established to channel program benefits and to apportion production adjustments to those farmers who were producing program crops at a certain time (the "traditional" producer). This prevented farmers without allotments from switching to an allotment crop and sharing in the benefits without also having to meet the required production adjustments. Because of this, allotments have a capitalized value, especially for the quota crops. Although capitalized values are less apparent for non-quota crops, farmers still view the allotment as having value. Any adjustments to reduce or remove allotments from individual farms now holding allotments would likely be resisted.

Research Available or Underway

Use of Land Reserves to Control Agricultural Production, ERS-635, ERS, USDA, September 1976.

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Base Plans in Federal Order Milk Markets

Issue

Legislative authority for Class I base plans and specific authority for seasonal incentive plans expire at the end of 1977.

Background

Some producer cooperatives have operated various types of base plans on a local market basis since the early part of this century. Seasonal incentive plans have also been administered under the Federal order system since the 1930's. However, Class I base plans were not authorized until passage of the Food and Agriculture Act of 1965.

Seasonal incentive plans. Several base and "Louisville" plans have used seasonal price incentives over the years to encourage dairy farmers to adjust their production patterns to better fit the seasonal demands of the market. At the present time there are seven seasonal base plans and 10 "Louisville" plan operating in the 50 Federal order markets.

Class I base plans. The Agriculture Act of 1965 amended the Marketing Agreement Act of 1937 to provide authorization for the use of Class I base plans. The stated purpose of this legislation was to reduce surplus milk production and stabilize the income of farmers by removing the necessity for dairymen to produce surplus milk in order to protect their sales in the higher valued Class I market. This was to be accomplished by giving each producer a proportionate share of the Class I utilization based on his deliveries during a representative period. Deliveries in excess of his base would be priced as surplus milk. Once the base was established there was no provision for adjustment, although the base could be sold or transferred among producers.

The Agriculture Act of 1970 revised and extended the Class I base plan authority to increase the ease of market entry and make it possible for existing producers to earn additional bases. These changes made Class I base plans less effective as supply control devices.

The Agriculture and Consumer Protection Act of 1973 extended the Class I base plan provisions of the 1970 Act until December 31, 1977. Class I base plans issued prior to December 31, 1977 may continue in effect to the end of 1980. Interest in Class I base plans has been limited. Only 2 of the 50 Federal order markets, Puget Sound and Georgia, have adopted such plans.

Options

Extend present authorization. Both the seasonal and Class I base plans would continue. Authorization to continue Class I base plans beyond 1980 could further increase the capitalization of bases in effect at the end of 1977.

Allow authorization to expire. If provisions relating to seasonal incentive plans were allowed to expire, the authority for such plans would presumably revert back to that granted by the 1937 Act. Louisville plans may be subject to legal challenge because authorization is not explicit in the 1937 Act. If seasonal plans were terminated, the trend toward more uniform seasonal milk production would likely be slowed. In periods of tight supply-demand balances, CCC purchases could be somewhat larger than if the plans were continued. However, during surplus production periods no significant differences in CCC purchases would be expected.

Termination of Class I base plan would affect the capital asset position of producers in the Georgia and Puget Sound markets because the established bases now have monetary value.

Research Available or Underway

Base Plans in U.S. Milk Markets--Development Status and Potential, MRR No. 957, ERS, USDA, June 1972.

Questions and Answers on Federal Milk Marketing Orders, AMS-559, Dairy Division, AMS, USDA, March 1975.

Summary of Major Provisions in Federal Milk Marketing Orders--January 1, 1976, Dairy Division, AMS, USDA, February 1976, pp. 38-39.

Contacts

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Wool Price Support Payments

Issue

Should price support payments to wool producers be continued? Current authorization expires December 31, 1977.

Background

The National Wool Act was established by Congress in 1954 and was continued through subsequent agricultural legislation. Its original objective was to encourage domestic wool production by supporting the price of wool at a specified minimum level, because an adequate domestic supply was deemed a strategic necessity. The program is funded by duties on raw wool and wool textiles, not by direct Congressional appropriations.

In 1950, domestic wool production amounted to 250 million pounds. It has trended steadily downward since 1961 to about 150 million pounds. The value of wool has also diminished with the increased use of cotton and synthetic fibers. Nevertheless, the program has been maintained to enhance sheep producers' income which has been relatively low in recent years.

The level of price support payment varies each year inversely to market prices; in recent years it has been the amount necessary to bring the national average price up to 72 cents per pound. Payments have been made each year except 1973 when prices exceeded the support level. Total payments to producers during the 1973-75 period averaged less than \$20 million annually. Payments for 1976 are estimated at about \$5 million.

Options

Allow the program to terminate. The Secretary of Agriculture would still have the discretionary authority to support producer prices through loans, purchases, or other operations.

Continue the program. With the average price support at 72 cents, wool production would continue to decline because of diminishing demand and sheep numbers. Program costs over the next few years would be minimal since the average market price of wool is projected to exceed 72 cents per pound.

Increase the support level. Extending the current program with support prices increased to 83-85 cents per pound would maintain projected annual program costs at 5 to 6 million dollars.

Research Available or Underway

"The National Wool Act of 1954, Its Past Effectiveness and Potential Changes," Staff paper, ERS, USDA, January 1977.

Contact

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Beekeeper Indemnity Program

Issue

The issue is continuation or termination of authorization for indemnity payments to beekeepers. Current program authorization under the 1973 Act expires December 31, 1977.

Background

The Agriculture Act of 1970 established this program which was then extended through December 31, 1977 by the Agriculture and Consumer Protection Act of 1973. Payments are graduated according to the degree of loss, but even slight to moderate losses receive some payment. Payments, authorized to beekeepers who suffered losses after January 1, 1967 due to toxic pesticides, totaled \$19 million for the 1967-75, and ranged from \$1.7 to \$3.0 million annually for the last 4 years of the period.

In the 1967-74 period, the top 10 payees received 20 percent of the total payments; however, their damage percentage was in line with losses suffered by other beekeepers whose bees were in the same geographic area. These top 10 payees owned an average of 8,480 bee colonies, 2 percent of the U.S. total, during 1972-74. Thus, the large payments appear to result from the large numbers of bees owned by the payees.

Options

Extend present legislation. An extension of the present program could cost \$2 to \$3 million annually.

Stop indemnification. Allow authorization to expire without extension or replacement. The effects on honey and fruit prices are estimated to be negligible. An ERS analysis suggests that the beekeeping industry in most States could survive without the indemnity program. However, a limited number of beekeepers without sufficient capital could be forced out of business if they sustain severe losses from pesticide damage.

Continue program with limited payments. This option would require that procedures for classifying the degree of damage be strengthened. Limiting payments to just those colonies which were destroyed or severely damaged would have reduced 1974 program outlays by about one-fourth.

Replace program with an insurance program. The Federal Crop Insurance Corporation (FCIC) has transmitted a report to Congress which concludes that an insurance program could be designed but that premiums would need to be subsidized by about 50 percent.

Research Available or Underway

"Report of the Beekeeper Indemnity Program," ERS, USDA, December 1976.

"ASCS Program Review: Report of the Beekeeper Indemnity Program Review Team," ASCS Staff Report, November 1976.

Insurance for Beekeepers As a Substitute for the Beekeeper Indemnity Program: An Evaluation, FCIC Report to Congress, transmitted February 1976.

Contacts

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Dairy Indemnity Program

Issue

Should indemnity payments to dairy farmers and manufacturers be continued? Current authorization under the 1973 Act expires June 30, 1977.

Background

Since 1964, legislation has authorized payments to dairy farmers whose milk was removed from the market by a public agency because of pesticide residues. Farmers were paid the fair market value for the condemned milk. In 1970 indemnification was extended to dairy manufacturers. Payments totaled \$2 million from 1964 through June 30, 1976 and have run \$100-200 thousand for each of the past 4 fiscal years.

Options

Extend present legislation. This authorizes payments for milk, milk cows, and dairy products due to residues of chemicals registered and approved for use by the Federal Government. Judging by the recent past, payments may range around \$200 thousand annually.

Stop indemnification. Allow authorization to expire without extension or replacement. The annual compensation to the dairy industry has been small; however, many individual farmers and some plants could suffer significant losses if the program were terminated.

Expand eligibility for payments. Eligibility could be broadened to include losses due to other types of chemicals. For example, Michigan dairy farmers who suffered losses due to feed contamination in 1975 and 1976 were not eligible for payments because the chemical was a fire retardant and did not meet the provisions of the law.

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OTHER PROGRAM RELATED COMMODITY ISSUES

Dairy Price SupportsIssue

Secretarial determination of dairy price support levels is an immediate issue since they must be announced by April 1 this year

Background

Price support activity is carried out under authority of the Agricultural Act of 1949, as amended, which requires the Secretary of Agriculture to establish a price support level for manufacturing milk at a level between 75 and 90 percent of parity that will assure an adequate supply of milk, reflect changes in the cost of production, and assure a level of farm income adequate to maintain productive capacity sufficient to meet anticipated future needs.

Costs and benefits of alternative regulatory programs have emerged as a major policy issue. About three-fifths of all milk sold to plants and dealers and about four-fifths of the fluid grade deliveries in the Nation are regulated under 56 Federal milk orders now in effect. In 1976, about 69 billion pounds of milk were regulated under Federal milk orders compared to 19 billion pounds in 1950. Also, 18 States now have laws authorizing regulation of milk prices. In total, more than 95 percent of milk meeting sanitary standards for fluid use is priced under either Federal or State orders.

Consumer groups are objecting to classified pricing of milk that requires handlers to pay a higher price for milk utilized for fluid purposes than for milk utilized in manufactured dairy products. The costs to consumers and benefits to farmers of this pricing practice is the basic issue involved. Another dimension of the issue is the extent to which this pricing mechanism is being used as a price enhancing rather than stabilizing tool. There is also some concern about Federal orders undergirding the market power of regional cooperatives.

Milk production in 1976 posted the largest annual gain since 1953, rising by some 4.5 pounds to close to 120 billion pounds. A further expansion is expected in 1977. At the same time there was a substantial expansion of demand for dairy products in 1976. Commercial stocks of dairy products very low at the beginning of the year, absorbed about 2 billion pounds of the increased milk production. However, commercial holdings are now burdensome. While sales of dairy products should be strong in 1977, commercial stocks have been rebuilt and the demand for them will be limited to normal seasonal requirements.

As government stocks increase in 1977, a crucial aspect will be distribution outlets available to CCC. Traditional outlets have been

sharply reduced as food stamp programs replaced the direct food distribution programs. About the only major domestic outlets that remain are the child feeding programs and there may be some potential constraints to these outlets.

The price support decision involves the determination of the relative levels of purchase prices for cheese, butter, and nonfat dry milk. Currently, purchase prices are designed to result in an \$8.41 per hundredweight return for milk to cheese manufacturers and an \$8.11 return to butter powder manufacturers, for an average price to milk producers of \$8.26. This "tilt" in product prices was designed to minimize CCC purchases of nonfat dry milk and butter. However, the tilt in favor of cheese prices could cause some difficulties in Federal Order regulated markets since handlers and/or cooperatives must pay the same price for milk (approximately \$8.26) for all manufacturing uses even though their returns are different when product prices are at support.

Price Support Options with the Present "Tilt"

In general, changes in farm milk prices due to changes in the support level will be reflected in retail prices of all dairy products.

I: Continue current \$8.26 support level. The present \$8.26 support price will be about 77.4 percent of parity on April 1, 1977. Given the projected milk-feed price relationships, milk production is estimated at 122 billion pounds for marketing year 1977/78. With the projected demand conditions and estimated commercial use, CCC purchases are projected to total 4.2 billion pounds (milk equivalent) at a support purchase cost of approximately \$407 million.

II: Decrease support price to 75 percent of parity. The April 1, 1977 support price estimate is \$8.00. At this level of support milk production is estimated to be 121 billion pounds, CCC purchases 3 billion pounds (milk equivalent), and support purchase cost \$302 million.

III: Increase support price to 80 percent of parity. The April 1, 1977 support price estimate is \$8.54. At this level of support, milk production is estimated to be 123.5 billion pounds, CCC purchases 6.1 billion pounds (milk equivalent), and support purchase cost \$592 million.

IV: Increase support price to 85 percent of parity. The April 1, 1977 support price estimate is \$9.07. At this level of support milk production is estimated to be 124.8 billion pounds, CCC purchases 8.3 billion pounds (milk equivalent), and support purchase cost \$836 million.

V: Increase support price to 90 percent of parity. The April 1, 1977 support price estimate is \$9.60. At this level of support milk production is estimated to be 127.0 billion pounds, CCC purchases 11.4 billion pounds (milk equivalent), and support purchase cost \$1.2 billion.

Options With Different "Tilt"

The current product price tilt in favor of cheese prices can be changed or eliminated under the CCC price support program.

Research Available or Underway

Milk Pricing, AER No. 315, ERS, USDA, Nov. 1975, pp. 3-5 and 8.

Government's Role in Pricing Fluid Milk in the United States, AER No. 229, ERS, USDA, July 1972, pp. 5, 7, 8.

Dairy Price Support and Related Programs, 1949-1968, AER No. 165, ASCS, USDA, July 1969.

Contact

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Rice

Issue

A decision of whether or not to have a set-aside program for the 1977 rice crop must be announced by the Secretary before April 1, 1977. In addition to the issue of setting provisions for the final year of the current Act, consideration must be given to replacement legislation for the 1975 Rice Act which expires with the 1977 rice crop.

Background

Rice legislation prior to 1976 was based on allotments and marketing quotas. That program resulted in prices above world levels in many years requiring subsidized export quotas. Production did not shift with comparative advantage until in 1974/75 when quotas were suspended.

While the United States is a relatively minor producer, it is the largest rice exporter. Most U.S. rice production is centered in a few States, and is extremely important to the economy of those States.

The Rice Production Act of 1975 drastically changed the rice program, introducing target price and deficiency payments similar to the programs for the major commodities under the Agriculture and Consumer Protection Act of 1973. As both of these laws expire in 1977, new legislation combining rice with the other commodities is a possibility.

The 1975 Rice Act established a national rice allotment of 1.8 million acres which was distributed to 1975 rice allotment holders. This allotment was used as a basis for program benefits (loans, deficiency payments, disaster provisions, etc.). Target price was set at \$8 per hundredweight and the loan rate at \$6 per hundredweight for 1976, to be adjusted thereafter to reflect movements in the Prices Paid Index.

Planted acreage and production of rice for 1976 decreased substantially from 1975 levels. Even with the decreased acreage for the 1976 crop, the Government will probably incur deficiency payments at the \$100-\$150 million level.

Options

One option is to extend the principal features of the 1975 Rice Act. This could be done by incorporating rice provisions into the legislation being developed for feed grains, wheat, and cotton, or by enacting separate legislation for rice. The implications of continuing the present program are for continuing growth in CCC inventories, despite rising exports.

Deficiency payments of \$140-145 million for the 1976 crop may generate pressure for reducing the target price if the concept were continued in new legislation. Also, program payment limits of \$55,000 per person might be

reduced. However, this would have the impact of reducing set-aside requirements for many producers, thereby counteracting supply adjustment efforts.

A second option is to let the law die and revert to permanent legislation. The Secretary would then be required to declare marketing quotas, and farmers would probably accept them. Allotments would have to be maintained at the legal minimum of 1.65 million acres to hold down carryover, and higher rice prices could reduce exports by more than 50 percent.

Research Available or Underway

"Reformulating Government Programs for Rice, Peanuts, and ELS Cotton: Economic Considerations," in Agricultural-Food Policy Review, AFPR-1, ERS, USDA, January 1977, pp. 105-111.

Contacts

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Tobacco

Issues

There is concern that the present price support formula for tobacco will lead to burdensome loan stocks and cause a loss in the U.S. share of the world market for flue-cured tobacco.

Support prices for individual grades of tobacco can be raised or lowered each season to reflect the relative demand for various grades. The average of support prices for individual grades of tobacco must equal the overall price support determined by the legal formula. Despite efforts to assign grade supports appropriate to market demand, about 80 percent of the flue-cured tobacco loan volume in 1975 and 1976 was leaf from the lower stalk position. These tobaccos have little market overseas and U.S. manufacturers can import similar tobacco more economically. Moreover, reductions in price supports for these grades means substantial increases must be applied to supports for the other grades. This poses a danger of pricing even the most desirable grades out of the market.

A concern of tobacco farmers is rising production costs. Some headway has been made in dampening the rise through harvest mechanizations in flue-cured tobacco. Burley growers have not realized this advantage and this an attempt was made in 1976 to convince Congress that price supports should be increased above the level provided by the current formula. Suggestions have been made that price support for tobacco be based on cost of production rather than the parity index. The issue has been raised whether Government funds should be used to encourage production of a commodity that carries risks to health of those who use it.

Background

The flue-cured tobacco program is now operating under permanent legislation. Support levels increased nearly 14 percent in 1976; another 7-percent increase is projected for 1977. Rising support levels have meant that, for a number of years, U.S. tobacco prices have been substantially above those of most foreign competitors, thus damaging our export position and encouraging increased imports. During the past year, government loan stocks increased 250 million pounds, a 70-percent increase over the previous year.

Flue-cured marketing quotas have been reduced 12 percent for 1977. USDA is also changing the pricing policy for flue-cured loan stocks from that typically used in past years. To make additional supplies available at more competitive prices, flue-cured tobacco under CCC loan will be priced comparable to the 1976 support prices. Production is in better balance with market requirements for other types of tobacco.

Options

(1) Keep the present program with its restricted control of acreage and marketing quotas, (2) modify the program to a system of target prices, support loans, and deficiency payments, or (3) eliminate all price support and acreage control programs. No substantial program changes are foreseen in the near future, however.

Research Available or Underway

"Tobacco Price Support Programs," Tobacco Situation, TS-152, ERS, USDA, June 1975, pp. 33-36.

"Report of the Tobacco Review Team," ASCS Staff Report, November 1976.

"Alternative Price Support Programs for Tobacco," paper presented at Tobacco Workers Conference, ERS, CED, Atlanta, Ga., Jan. 11, 1976.

Contacts

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ELS Cotton

Issue

The issue is whether to continue the present program or to include ELS extra long staple cotton under general agricultural legislation.

Background

There are only about 2,000 producers involved in the ELS cotton program. It includes acreage allotments, marketing quotas, nonrecourse loans and supplementary payments. ELS is special type of cotton that makes up less than 1 percent of total U.S. cotton production. Most ELS cotton is grown in Arizona, New Mexico and West Texas.

The costs of producing an acre of upland and ELS cotton are quite close, but the yield of ELS is only about 60 percent that of upland cotton. Special ginning equipment is also required. Many growers in 1976 did not use their allotments because of high irrigation costs and the lower yields of ELS cotton. Domestic production is less than needs, so ELS cotton is imported.

Changes initiated in 1968 established a "one-price" program for ELS cotton similar to the upland cotton program then in effect. Prices are supported through loans, and direct payments must be made such that the loan level plus direct payment equals a minimum of 65 percent of the parity price. The practice currently followed by USDA is to set a high loan level to reduce the direct payment.

Options

A proposal was made in 1976 to make the ELS cotton program more market oriented, similar to that for upland cotton. A similar movement may arise to bring ELS under the 1977 commodity legislation. Considerable support exists for eliminating allotments. A case could be made for phasing out the program altogether at this time when the impact would be relatively minor. This would, however, have equity implications for those now having allotments.

Research Available or Underway

"Reformulating Government Programs for Rice, Peanuts, and ELS Cotton: Economic Considerations," in Agricultural-Food Policy Review, AFPR-1, ERS, USDA, January 1977, pp. 116-118.

Contacts

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Peanuts

Issue

Program costs are escalating and locked in because of the statutory minimum allotment level and minimum support level in the permanent legislation. Program revisions, attempted in 1976 and certain to be debated again in 1977, are the key issue.

Another issue has recently arisen regarding price differentials for various types of peanuts (1976 crop).

Background

Peanut legislation has been basically unchanged since 1949. The Secretary of Agriculture is required to proclaim marketing quotas if supplies would be excessive without controls, and to support the price at 75 to 90 percent of the parity price unless quotas are disapproved. Marketing quotas have been proclaimed and approved for every year since 1949, resulting in national acreage allotment at or above the allowable minimum 1.61 million acres.

Peanut yields have increased substantially in recent years and acreage allotments have not been reduced accordingly. Minimum support rates make it profitable to grow peanuts, and because peanuts grown on allotments are eligible for support, producers continue to use their entire allotment. This rising level of production has been exceeding the demands of traditional users by increasing amounts. The government cannot reduce the allotment under current law. The only alternative is for the Government through the Commodity Credit Corporation to acquire the peanut supply at the support rate and then dispose of the peanuts at a loss. These losses have been increasing. This has brought the pressure to modify existing legislation or enact new legislation as an effort to bring peanut supplies in line with demand and to reduce Government costs.

Changes in peanut legislation were attempted in 1976 (HR 12808). The bill proposed to reduce the minimum acreage allotment but allow farmers to plant in excess of the allotment for export markets. Peanuts grown on the allotment would be supported at not less than 70 percent of the April parity price. Peanuts grown outside of the allotment would be supported at a lower rate.

The issue of price differentials applicable to various types of peanuts for the 1976 crop remains unsettled. The differentials announced by USDA on July 6, 1976, were enjoined in litigation brought by Southeastern shellers. The Court of Appeals has ordered the Secretary to undertake a new rule-making procedure to set such differentials. The rulemaking procedure may or may not have been completed by January 20, 1976. If not, it will have to be taken up by the new Administration.

Options

One option is to continue the present program. The problem of rising program costs due to increasing yields would continue.

A second option is to adopt a target price and loan rate program for peanuts similar to that for the other major crops. A market oriented program that had loan rates and target prices below recent support levels would cause some problems in the peanut industry. One problem would be the capitalized value of peanut allotments. Transition steps might be necessary to cushion the reduction in government involvement. For example, target prices might be set at a higher level initially to support incomes, and then be reduced over time.

A third option is to adopt a two-price plan for peanuts. This was the thrust of proposed legislation in 1976 (The Mathis Bill).

Recent Analyses

"Reformulating Government Programs for Rice, Peanuts, and ELS Cotton: Economic Considerations," In Agricultural-Food Policy Review, AFPR-1, ERS, USDA, January 1977, PP. 111-116.

Contacts

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Sugar

Issue

The major issues relating to U.S. sugar policy are: the degree of domestic sweetener price stability desired; the nature of price support programs for the domestic sucrose industry; methods of facilitating adjustments within the domestic sucrose and corn sweetener sectors; and the U.S. relationship with the "world market" and with foreign suppliers, who have historically supplied 40-50 percent of domestic sugar demand.

Background

After 40 years of market regulation, the U.S. Sugar Act, which supported domestic prices, expired on December 31, 1974. In response to record high 1974 prices, sugarcane and sugarbeet production around the world rose sharply. In 1975, a 1 million ton increase in world stocks brought sugar prices down to a 15 cents per pound average, in contrast to a 1974 average of 30 cents per pound. A potential 4 million ton increase in ending 1976/77 stocks began to weaken prices further in July 1976. By September, prices averaged 9.8 cents per pound.

In response to sharply declining sugar prices, domestic growers and processors have called for increased import protection in the form of higher duties or restrictive quotas, or both, and for new sugar legislation to reinstitute protection afforded by the Sugar Act. Other segments of the industry and consumer interests strongly oppose a return to a domestic protective system. The introduction of high-fructose corn syrup as a competitor complicates the legislative situation.

The President raised the duty on imported raw sugar from 0.625 cents to 1.875 cents per pound on September 21. Subsequently, the differential between the world and New York spot price widened somewhat, without significantly increasing domestic prices.

Cost estimates for producing, processing, and refining domestic raw cane sugar in 1976 ranged from 17.0 to 20.5 cents per pound. Beet sugar production costs also exhibited wide regional variation, but averaged about 18.6 cents per pound, refined basis. Continuation of current prices for an extended period is likely to result in a marked contraction in domestic production, and reduce earnings in rural areas where crop alternatives would require fewer inputs and not offer the same degree of employment.

Foreign as well as domestic producers are experiencing low or negative returns. However, the current depressed price level will have little or no short-term (through the end of 1977) effect on sugar production levels in foreign nations which supply the United States. Fixed investments in sugar are high and the 4-year cane crop cycle precludes rapid adjustment. Some foreign countries are raising domestic prices to sustain industry earnings, while others are continuing low domestic prices to encourage consumption.

If high prices return, high-fructose corn syrup (HFCS) consumption will expand, further displacing sugar production. High-fructose corn syrup, which is cheaper to produce than sugar and equal in composition to liquid invert sugar, is now produced only in a liquid form. Total production, now equivalent to 0.8 to 1.0 million tons of sugar, is expected to reach 2.5 to 3.0 million tons by 1980. Since production costs permit HFCS to undersell sugar, sugar prices which would guarantee U.S. producers a positive return would provide a price umbrella for HFCS producers. Low sugar prices have slowed but not stopped the expansion of HFCS production.

Long-term contracts signed in 1976 provide for shipments of foreign sugar to U.S. sugar refiners and for payment to foreign producers based on the selling price of sugar or the world market price. These contracts now cover 2.0-2.3 million tons, or 50 percent of our domestic imports. A return to a country quota system would probably lead contract signatories to demand access for their contracted amounts.

International Trade Commission (USITC) Investigation. On September 17, 1976, the Senate Finance Committee requested a Section 201 escape clause investigation on sugar to determine if increasing imports were injuring, or threatening to injure, domestic producers. If the USITC makes a negative finding, that imports are not a cause of injury and import relief is not justified, the President under Headnote 2 of the Tariff Schedule would have the authority to reduce the import quota or raise the tariff in an effort to bring relief to the domestic industry. The imposition of an import quota to improve the position of the domestic industry following a negative finding might adversely affect our relations with foreign suppliers.

Generalized System of Preferences (GSP). Sugar presently is eligible for duty-free treatment under the GSP. Initiated on January 1, 1976, under Title V of the Trade Act of 1974, GSP grants duty-free entry, subject to competitive need limitations and import market shares, of sugar imports from eligible developing countries.

This year, 15 to 20 percent of U.S. sugar imports have entered duty-free under GSP. Concern among domestic producers resulted in the American Farm Bureau's petitioning the Special Trade Representative's office in September for removal of sugar from the GSP list. This petition is under consideration but no decision will be made until after the USITC investigation on sugar is completed in early 1977. However, by March 1, the President must decide on the continued eligibility of sugar and beneficiary countries eligible for GSP.

International Sugar Agreement (ISA). The ISA has existed in one form or another since 1937. Formal negotiations for the new ISA begin April 18, 1977. The U.S. has stated it will participate but as yet our policy position has not been made clear.

Options and Implications

Under existing law the President has the authority to adjust the tariff and the import quota on sugar (now 7 million tons), and establish a price support program for sugar. The President may set the tariff at any level in the approximate range of 0.625 to 1.875 cents per pound and the quota at any level on a country-by-country or global basis. The Trade Act grants the President the authority to set the tariff above 1.875 cents per pound up to about 2.981 cents per pound; however, this would violate a previous trade agreement, requiring compensation to injured parties under the GATT. The President also has the broad authority to support the price of sugar crops ". . . through loans, purchases, payments, and other operations." Any such program would require restrictions on U.S. sugar imports in the form of tariffs or quotas.

The Sugar Supply Assurance Act will likely be reintroduced. It provides for a variable levy to be collected on all imports. The levy would be equal to the difference between the base price specified in the Act (14.8 cents per pound of raw sugar) and the purchase price. Other programs which may be proposed are a target price program, which could draw sugar under the general agricultural legislation, and programs similar to the bill to extend the Sugar Act which was defeated in June 1974. The old Act established a quota system which regulated supplies of sugar sold in the United States. Quotas were allocated to domestic producers and foreign suppliers. Other provisions included equitable division of returns between growers and processors as well as field workers.

Research Available or Underway

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COMMODITY ASSOCIATED MARKETING AND REGULATORY ISSUES

Grains and Feeds

Grades and Standards for Grains and Oilseeds

An interagency task force (ERS, AMS, ARS), established by Secretary's memorandum in 1976, has been given responsibility for (1) reviewing existing U.S. standards for grains and oilseeds, (2) determining needed revisions, and (3) proposing research or other actions necessary to achieve the revisions. The standards were established in 1916 and have undergone only minor revisions since that time.

This effort might potentially recommend a thorough overhaul. Opposition to such changes can arise from many quarters, and likely would focus on two issues: (1) level of prices, and (2) distribution of gross returns among farmers. ERS will be responsible for assessing the economic impact of proposed revisions.

Breakfast Cereals Industry Concentration

The FTC has proposed a wide-ranging divestiture order against the four largest manufacturers of breakfast cereals. The proposed action ranges from breakup of the corporations to unlimited licensing of trademarks.

The proposal is based upon a concept of "shared monopoly." Basically, the FTC alleges that the market concentration of the four firms is so high that competition is stifled and costs to consumers are increased unreasonably. The basis for the action enters new legal ground, and it will be contested vigorously by the affected companies. Agriculture will likely become involved as this issue is pressed.

Grain Marketing System

Hearings were held by the Congress in 1976 on the multi-national grain companies and their influence on the grain marketing system. Issues included market concentration, the control these companies exert on pricing and transportation, and related issues. The hearings on the multi-national grain companies were suspended, but these issues may continue during this Congress.

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Dairy

Immediate Issues

1. Undue Price Enhancement:

The Department last spring began a review of dairy cooperatives' pricing practices in Federal order markets. The purpose is to ascertain whether cooperatives had unduly enhanced milk prices in violation of the Capper-Volstead Act. The Capper-Volstead Committee, consisting of the Director of Agricultural Economics, Assistant Secretary for Marketing, and the General Counsel, has direct responsibility for the inquiry. A working group (subcommittee), composed of members from AMS, ASCS, FCS, GC, and ERS, was established to investigate price performance in milk markets and report their findings to the Committee.

Section 2 of the Capper-Volstead Act provides that if the Secretary of Agriculture has reason to believe that any association monopolizes or restrains trade to such an extent that the price of any agricultural product is unduly enhanced, he shall serve a complaint on such association which shall include a notice of a hearing at which the association shall be required to show cause why it should not be directed to cease the desist from such monopolization or restraint of trade. The Act authorizes the Secretary to take action against the monopoly or the restraint of trade activity only. It does not authorize him to establish a reasonable price nor does it give him the alternative of ordering the association to reduce its price.

The working group is examining milk prices both on the national level and in specific markets. It is entirely possible to have a situation where there is no undue price enhancement at the national level (on the average), but still have undue price enhancement in specific markets of localized regions. If prices appear to be too high, then the causes must be examined to determine whether or not there is a violation of Section 2 of the Capper-Volstead Act. If one or more cooperatives are involved in price enhancement, a possibility of violation of the Capper-Volstead Act exists, and the Capper-Volstead Committee would make a determination as to whether legal proceedings should be undertaken.

The preliminary committee report released in late December 1976 found no price enhancement by coops.

2. Federal Milk Market Orders

Costs and benefits of alternative regulatory programs have emerged as a major policy issue--one of the most important and perplexing problems facing policymakers today. About three-fifths of all milk sold to plants and dealers, and about four-fifths of the fluid grade deliveries in the Nation are regulated under 56 Federal milk orders now

in effect. In 1976 about 69 billion pounds of milk were regulated under Federal milk orders compared to 19 billion pounds in 1950. Also, 18 States now have laws authorizing regulation of milk prices. In total, more than 95 percent of milk meeting sanitary standards for fluid use is priced under either Federal or State orders.

Consumer groups are objecting to classified pricing of milk that requires handlers to pay a higher price for milk utilized for fluid purposes than for milk utilized in manufactured dairy products. The costs to consumers and benefits to farmers of this pricing practice is the basic issue involved. Another dimension of the issue is the extent to which this pricing mechanism is being used as a price enhancing rather than stabilizing tool. There is also some concern about Federal orders undergirding the market power of regional cooperatives.

Increasing pressure from competing special interest groups for changes in the present system of regulation lend urgency to the need for research results that evaluate the likely consequences of alternative policy decisions. ERS has begun a major study of the impact of Federal milk orders on dairy farmers, producer cooperatives, proprietary handlers, and consumers. A report of this study was completed in December 1976.

Less Immediate Issues

1. Dairy Product Import Quotas

Section 22 of the Agricultural Adjustment Act provides an effective means of limiting imports of agricultural products when they interfere with the achievement of the goals of a domestic price support or similar type program. U.S. trade in dairy products as a share of total U.S. milk production is fairly minor. Imports, on a milk equivalent basis, during the last 10 years have averaged less than 2 percent of total production due to our import quota system. Meanwhile, exports and shipments have averaged just over 1 percent of total U.S. milk production.

In January 1975, an ERS study of the impact of expanded dairy product imports on the domestic dairy industry and consumers, was completed and submitted to Congress. However, discussions at the Tokyo round of the General Agreement on Tariffs and Trade (GATT) have generated renewed interest in the impact of foreign trade on the U.S. dairy industry.

2. Changing Structure of the Farm Sector

While small dairy farms are disappearing, and the number of large farms is rising, adequate milk supplies have generally been maintained. One reason is that productivity in dairy farming in the United States has more than doubled since the early 1960's. Although due, in part,

to less efficient farms going out of business, productivity has also been raised by substantial inputs of capital and energy, and increased milk production per cow. Through improved breeding, feeding, and management, milk output per cow has increased from 4,800 pounds in 1945, to 10,354 pounds in 1975. During the same period cow numbers declined from 25 million to about 11 million. Much of this increased productivity has been related to increased feeding of cereal grains and other concentrate feeds.

ERS research results indicate that productivity in dairying is likely to increase through 1980 at about the rate of the recent past. It is estimated that 47 percent (about 180,000) of the U.S. dairy herds will discontinue production by 1980. Thus, by 1980, about 200,000 dairy farmers will be producing an adequate domestic supply of milk if current dairy policies are continued. The number of herds of 100 or more cows is expected to continue to increase and produce a higher proportion of the total supply.

3. Farm-to-Retail Marketing Margins

Especially during periods of rising retail milk and dairy product prices, questions will be surfacing as to the performance of the milk production and marketing system. There are continuing concerns as to which subsectors are efficiently performing and whether or not firms are being equitably rewarded but not making undue profits. Questions of relative market power among firms and among subsectors of the industry are also likely to continue to surface.

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Fibers

Immediate Issues

OSHA Regulations.--The proposed OSHA standards for noise and dust levels in textile manufacturing are considered to be a crucial issue, and if implemented would raise costs considerably.

Byssinosis.--Some textile mill workers get the occupational respiratory disease called byssinosis due to the exposure to cotton dust. It is proposed that the current 1.0 mg/m³ dust standard be lowered to 0.2 mg/m³, but that these standards be applied to all segments of the industry from harvesting through waste utilization. However, few studies are available showing what problems (if any) exist for workers in such industries as cotton ginning and cottonseed and linter processing.

Other Issues

Import Quotas.--Increasing cotton textile imports have substituted for potential U.S. mill consumption of raw cotton. Currently, imports account for about 20 percent of cotton products sold over retail counters, and most exporting countries are just beginning fully to utilize their quotas resulting in sharply increasing textile imports. Current trade agreements covering textile imports (GATT) expire at the end of 1977 and there is increasing pressure to place stronger restrictions on imports of cotton, wool and manmade fiber textiles.

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Farm Price and Income Stability

Issue

At what point do the social benefits from Government actions to stabilize year-to-year fluctuations in farm incomes exceed their cost? What sorts of farms can survive if faced by continued large price fluctuations? How much do unstable commodity prices affect total farm output?

Background

The excessive cost of past programs to support farm prices and incomes is known and was a major reason for the changes in such programs since the early 1950's. Eventhough coming programs may cost less, were commodity prices to be unacceptably low, the programs could come under continual scrutiny as to whether they are worth the cost to consumers and taxpayers.

In this setting there is a need for information. Despite the widespread concerns about price instability there is little quantitative information about its impact on farmers and others. Instabilities in agricultural commodity prices result in corresponding instabilities in farmers' incomes. In some cases, financial hardships and even bankruptcy may result from one or more years of unfavorable prices. But the magnitude of price and income instabilities varies among farms. And we know relatively little about how price instability translates into income instability and financial failure at the individual farm level.

Farmers themselves may be able to do much to modify the effects of price instability on their incomes and financial security. The tools available include contracting, diversification, and enterprise-sharing arrangements. The principles in using these tools apply to different types of farms across the country.

It used to be thought that price and income instability favored small diversified economic units over large specialized ones. Put another way, stable prices encourage large-scale farming. But now some say that only large commercial farms can survive in the face of uncertain returns. To resolve this question, we must separate the organization of resources into operating units for maximum physical efficiency (which often requires more specialized operations, enlarged scale and highly developed technology) from the pattern of ownership under which the necessary inputs are provided.

Agricultural price instability affects not only farmers but other members of society as well. Presumably, instability increases costs of production, reduces quantities supplied at a given price and leads to inefficient use of resources. These constitute losses for society. We need to know whether these losses amount to a few million dollars, billions of dollars, or something in between, if we are to help judge whether programs to reduce instability are needed.

Options

In general, three types of options exist separately or in combination. One is to have no special programs to stabilize farm prices and incomes. Here reliance would be solely on the farmers' own abilities to adjust to uncertainty through various diversification, enterprise-sharing and insurance agreements. A second option is to let commodity prices fluctuate as they may but to make up deficiencies in farm income, as judged by some norm, with direct income payments to farmers. The third alternative is to stabilize farm prices with some form of Government market intervention.

Role of USDA and ERS

The Department has primary responsibility for agricultural commodity programs--their design, implementation and monitoring--as well as furnishing information for legislative decisions about program changes. ERS provides a wide array of economic intelligence on commodities as well as analyzing the economic consequences of alternatives.

Research Available or Underway

In respect to the first option, ERS has published two studies--one on how farmers in different parts of the country would have fared in the past by selling various livestock and grain products forward at the time they had undertaken production or storage (Agricultural Economic Report No. 238), and the other on how farmers might go about using the different types of contracts that are available in their farm business (Agricultural Economic Report No. 320). Further research along these lines is underway, including an attempt to estimate how, under different situations, farmers actually react to price uncertainty and the effect on aggregate farm output.

In respect to income payment programs, ERS has studied the distribution of such payments among different farm income groups and the incentive to produce (Agricultural Economics Research, Vol. 25, No. 2). In respect to the many different programs to support prices for agricultural commodities--such as non-recourse loans, diversion payments, export subsidies, import quotas, marketing orders--ERS has engaged in many studies aimed at their evaluation. (ERS-635, ERS-641, Agricultural Economic Report No. 315, Agricultural Economic Report No. 341).

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Control Of The Food & Fiber System

Issue

Control of the food and fiber system is exercised by persons responsible for making decisions relating to input acquisition and pricing, adoption of new technology, production capacity, product pricing, variety and quality of products, marketing strategies, and the flow of information. The public concern centers on efficiency and equity aspects of performance. Does the system deliver food and fiber products in the form, quality, place, and time demanded at reasonable prices? Are productive resources compensated according to their contribution to the value of final product? Are resources sufficiently mobile to prevent excessive profits from being maintained?

Background

Over the past two decades, food manufacturing, distribution and input supply industries have drawn special attention because of increasing market concentration and product differentiation, and their apparent degree of control over the well-being of farmers, consumers, and smaller competitors. Mechanization, capital-intensive production, integration through contracting and ownership, multinational firms, and large-scale specification buying have concentrated decisionmaking power into the hands of a few participants.

In the past, American consumers have directed the food and fiber system through their purchases in the market place, with changes in demand reflected back to farmers. However, as the system increasingly resembles a highly coordinated assembly line and nonfarm industries become more important, many consumers realize their influence is slipping and many farmers feel they no longer control their own futures.

In 1972, there were about 2.9 million farms. Less than 3 percent of all farms with annual gross sales of \$100,000 or more marketed 40 percent of all farm products. Farms on which hired workers provide less than 1.5 man-years of labor continue to account for about 95 percent of all farms, but mechanization and rising land prices have caused capital requirements per farm to increase. This is reflected in pressure for low-cost Government credit and special legislation to facilitate intergenerational transfer of farms.

Some farm production units have not only grown in size, but have integrated with other stages of the food and fiber system. Contracting and ownership integration have altered many local or first handler markets. In some commodities, farmer cooperatives provide competition to large processors in buying farm products.

In the farm supply industries, farm machinery and pesticide manufacturers have the highest levels of market concentration and the greatest degree of product differentiation. Dealer-distributor networks

formed by major machinery manufacturers are important competitive devices. Concentration and product differentiation is low in feed manufacturing, but feed companies probably have the greatest degree of control over farming, as illustrated by their contract integration in poultry production. Concentration is moderate in fertilizer manufacturing and petroleum refining, but entry into these industries is difficult because of economies of size and access to raw materials.

Food manufacturing and distribution have been affected by technological change and the rapidly rising demand for convenience foods. The latter trend has benefited companies large enough to engage in product experimentation and differentiation through sophisticated advertising and promotion activities. While average market concentration of all food manufacturers has shown little change, food industries with a high level of product differentiation show significant increases in concentration and higher profits. Companies such as McDonald's, Kentucky Fried Chicken, and Holiday Inn have grown rapidly and are restructuring the fast-food industry. Through rigid product specifications and highly coordinated supply networks, these companies may have important impacts on producers and processors of beef, broilers, potatoes, and other commodities.

In food retailing, the largest four firms generally account for about half of the grocery sales in most SMSA's. In some markets, the four-firm concentration level is above 70 percent. Mergers of very large chains have been sharply restrained by FTC guidelines. Large retailers are often criticized for excessive nonprice competition and failure to provide services to inner city and rural consumers.

Concern about control of the food and fiber system was voiced in 1964 when Congress established a National Commission of Food Marketing to study and appraise changes taking place in the food industry. Similar legislation, although not enacted, was introduced in the last Congress. This effort is likely to be renewed.

Options

As the food and fiber system is transformed, centers of decisionmaking responsibility and control are changing. A better understanding of these changes is essential to identifying and fully evaluating policy alternatives. This understanding can be provided only through the development of a comprehensive information base on structure, conduct and performance throughout the food and fiber system, and support of research to define causes and consequences of structural change.

Specific policy options which may be pursued include:

1. Adopt a "laissez-faire" position under which the structure and performance of the system is determined by free market interactions and the Government lays a minimal role in regulation.

2. Encourage competition in the market place to achieve reasonable levels of countervailing power. Antitrust laws can be used in concentrated markets to break up large firms and prevent mergers, and to deal with "unfair" behavior. The Government can provide financing and technical assistance to small firms and cooperatives to help them be more competitive. Marketing boards could be instituted in some commodities to negotiate terms of sale for farmers. In many local markets, buyers are few and have superior market information compared to farmers. Better market information and standardization of contracts would tend to enhance competition. Further reform of tax laws and accounting practices that encourage nonfarmers to bid agricultural land and other resources away from family farmers could be promoted.
3. Move toward a totally regulated food and fiber system. This could involve a public utility approach with production quotas, regulation of prices and profits at each stage, and even Government ownership of resources. A less drastic option is to rely on temporary regulations (i.e., wage and price controls), and/or to regulate only selected activities. For example, advertising by large food manufacturers might be controlled to discourage unnecessary product differentiation, higher food prices and undesirable eating habits; and society could prohibit corporations with more than 10 shareholders from engaging in farming.

Role of USDA

The USDA's concern over control of the food and fiber system arises because of broad objectives to: (a) insure that farmers and ranchers receive reasonable rates of return on their capital and labor, and (b) provide consumers with a wholesome supply of food and fiber products at reasonable prices.

Specific programs to improve farmer bargaining power, increase farm productivity, disseminate market information, inspect and label food products, and many others contribute to these objectives. Economic intelligence is provided on the current structure and performance of the food and fiber system. Research provides an understanding of major forces shaping the future of the system, and evaluates impacts on farmers, consumers and other participants.

Research Available or Underway

Research on the structure, conduct, and performance of the food and fiber system is being carried out by ERS and several universities. ERS activities in this area are closely coordinated with the joint university-ERS project NC-117.

Data from the 1974 Census of Agriculture and other sources are now being used to provide an up-to-date picture of farming. Other farm sector researchers are examining impacts of the four-wheel drive tractor on farming, and the ability of California farmers to shift risk through production contracts and other arrangements. In addition, research is being conducted on the procurement practices of food retailers and analyzing the effects of market structure characteristics on firm growth and diversification in food manufacturing.

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Farm Taxation

Issue

There are two issues in the farm tax area. First, are the special farm tax rules warranted by actual conditions in agriculture? Second, is the gradual encroachment of tax motivated nonfarm investors detrimental to agriculture?

Background

Farmers have long sought preferential tax treatment for their farm businesses. In 1915, they obtained an administrative decision which permitted them the right to use cash accounting for income tax purposes. In 1919 a Treasury regulation allowed them to write off (for tax purposes) certain capital expenditures when they occurred. In 1951 Congress granted farmers the right to treat the sale of certain livestock held for a specified time as a long-term capital gain.

Farmers have also sought and obtained special treatment from other types of taxes. The most notable are the special estate tax rules for farm estates, part of the Tax Reform Act of 1976, and the preferential valuation of farmland for property tax purposes in many States.

These tax preferences have substantially simplified and reduced farm tax liabilities. They have also encouraged individuals who would not normally be considered farmers to attempt to qualify some of their income for these special tax concessions--"tax loss" farming.

Farm tax preferences generally were promulgated with the best of intentions. Farmers were permitted to ignore inventories for income tax purposes "to provide a unitary and expedient bookkeeping system for farmers and ranchers in need of a simplified accounting system." They were granted special treatment under the estate tax because farm estates had become ever larger over the years, and the closely held nature of farm businesses made it difficult for some inheritors of farm estates to meet their estate tax liabilities without impairing farm operations. Similarly, property taxes have been reduced to give the farm proprietor some relief from the heavier tax burden he encountered when property values increased.

Unfortunately, each measure to help the farmer via tax subsidies tends to stimulate countervailing forces in the marketplace. Individuals outside the farm sector learn to take advantage of each preference, and tax-motivated investors in farming provide stiff competition for traditional farmers. They tend to be concerned with tax savings, not profit and loss. Since the commercial farmer depends on farm profits for his livelihood, the lower rate of return the tax-motivated investor can accept and still have an after-tax gain may impair normal market mechanisms and thus adversely affect farm productivity.

Options

There are three possible approaches to the issue of special farm tax preferences. One may accept them, reject them, or favor a selective pruning of the most undesirable provisions.

For all of their complaints about tax-motivated farmers ruining their markets, most farmers do not want their tax preferences revoked. The only revisions they clearly support are those that would exclude tax-loss investors and corporate farms.

One alternative is to eliminate all tax preferences for everyone at the same time. Administration of the income tax would be considerably simplified, and the tax rates could be low and without reducing revenues. Such a proposal has been gaining support for several years, but it is still far from being politically practical.

Of the various preferences that might be eliminated independently, the farmer's right to use cash accounting is perhaps the most logical choice. The conditions which warranted such special treatment--small farms with poorly educated operators--are now mainly a thing of the past. A limited reform was introduced in the Tax Reform Act of 1976, which required corporations and partnerships which have a corporation as a partner with annual gross receipts of more than \$1 million to use the accrual method of accounting. A first step toward total elimination of cash accounting might be to require all corporate or commercial farms to use accrual accounting.

The two other major tax preferences that are specific to agriculture would be more difficult to eliminate. The special provisions for agriculture in the estate tax were only recently enacted. The property tax preferences are not within Federal jurisdiction.

Role of USDA and ERS

ERS provides analytical support for questions arising from current and proposed changes in the tax code, and the administration thereof when requested by IRS, and consults and advises with the Secretary and OMB on these. Questions bearing on the availability and use of farmland have been particularly acute in the last few years and have intensified research into the subject.

Research Available or Underway

One of the projects now underway is under contract with the University of Missouri. It is investigating the relationship between the tax structure and technological innovation in agriculture. The other is examining the tax burden of the agricultural sector to quantify the revenue cost of the tax preferences that have been granted to agriculture.

The research that is currently available involves use of Statistics of Income data released from the Internal Revenue Service. Such reports as the ERS publication "Tax Loss Farming" (ERS-546) and "Increasing Impact of Federal Estate and Gift Taxes on the Farm Sector" (ERS-242) are typical of this genre.

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Food and Fiber Productivity

Issue

What strategies should be employed to assure continuation of rates of increase in food and fiber productivity commensurate with foreign trade and domestic policy objectives?

Background

Many agricultural scientists and public officials are concerned about apparent recent declines in the rate of increase in agricultural productivity. A prevalent fear is that we may be entering an era of slow and diminishing advances in agricultural output in response to agricultural research, development and education. An alternative, and perhaps optimistic, view is that productivity in the food and fiber system will increase sufficiently in the future to permit an expanding American contribution to meeting world food needs, with ample supplies at reasonable prices for domestic consumption.

The increase in aggregate farm productivity was spectacular in the 1940-72 period, when output increased 83 percent, while total inputs increased only 3 percent and labor inputs decreased 63 percent. Farmers have adopted capital intensive production methods and the quality of inputs has changed over time. Increases in productivity in processing and marketing have not matched those in farming, although the available statistics are difficult to interpret because of the dramatic change in types and amounts of services incorporated into the food and fiber products delivered to American consumers. Since 1920, we have observed the emergence of large-scale food manufacturers, replacement of corner groceries with supermarkets, and creation of a fast-food industry. Except for brief periods, the share of consumer expenditures devoted to food purchases has steadily decreased, and is now about 17 percent of total disposable personal income.

Future productivity increases within the food and fiber system may be more difficult to achieve. Three deterring factors may have emerged: (1) prospective shortages and substantial price increases for fossil fuel based inputs (energy, fertilizer and pesticides); (2) diversion of some research activity from pursuit of productivity-increasing objectives to those of maintaining productivity (resolving environmental issues, finding substitutes for the more scarce resources, improving quality of products, etc.); and (3) possible maturing of agricultural and food sciences and the consequent reduction in the rate of discovery of major new technological opportunities. These factors could have contributed to the apparent recent decline in the rate of increase in farm productivity, and may affect the potential for increasing productivity in food processing and marketing, dependent mainly upon private rather than publicly supported research.

Options

Policy officials may create a strategy based upon one or more of the following options:

- (1) Clarify national policy objectives with respect to food and fiber production and productivity, and monitor research, developmental and educational activities for consistency with those objectives;
- (2) Authorize and support a "state of knowledge assessment" which would enhance our understanding of:
 - (a) The extent to which productivity in the food and fiber system can be increased through fuller exploitation of existing technology, and the adjustments required to utilize it best;
 - (b) The opportunities that exist for advancing food and fiber system technology and productivity without further breakthroughs in the basic sciences;
 - (c) How much the needed new technology is being thwarted by the slow advance in the basic agricultural and food sciences;
 - (d) How much the dispersion of agricultural research towards objectives other than increasing production or productivity has held back the progress;
 - (e) The R&D thrusts with the greater probability of contributing to increased food and fiber productivity;
 - (f) The future rates of increase in productivity under varying assumptions with respect to national levels and kinds of food and fiber research and education.
- (3) Increase the support of farmland and natural resource enhancement programs and policies such as preservation of prime agricultural lands, drainage projects, flood control, irrigation, soil conservation, and/or weather modification.
- (4) Focus upon ways to boost efficiency of resource use on the least productive farms.

Role of USDA and ERS

Advances in productivity within the food and fiber system have been enhanced substantially by improvements in communication, organization, management, and other factors not directly related to agricultural technology. It likely will be more dependent upon advances in science and technology in the future. With an increasing dependence upon research, management of agricultural research for achievement of productivity increases consistent with national policy objectives takes on added

significance. USDA is in a key role for managing publicly supported agricultural research. The Agricultural Research Service, together with land grant universities utilizing Federal funds, will supply the basic research that determines technological opportunities. The Economic Research Service, through assessments of technology and analyses of efficiency or productivity in production, processing and marketing, will contribute to identifying needs and opportunities for increased productivity through research. Also, the Extension Service can help identify basic and developmental research needs for increasing agricultural productivity.

Research Available or Underway

A large but declining share of publicly supported agricultural research has been devoted to increasing productivity. The research underway does not reflect organized and planned efforts to achieve national technological or productivity objectives. Instead, it seems to reflect the kind of diversity, fragmentation, and duplication that one would expect from decentralized and highly specialized individual, scientist managed research. Adjustments in research orientations and management consistent with greater efficiency in use of existing resources can be gradually achieved over a period of time. Those adjustments can be made more rapidly with increasing levels of research resources.

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Changes in the Definition of Farms and Farm Population

Issue

The official definition of a farm is being changed. The Department of Agriculture and the Bureau of the Census have proposed to define farms as places from which \$1,000 or more of agricultural products are sold in a year. This would replace the current definition, a place selling \$50 of products annually with a minimum of 10 acres of land (or \$250 of products if less than 10 acres). The places to be eliminated contain about a fifth of the present number of farms and farm population, but have a very minor amount of farm production. The new definition was announced in August 1975, but Congress passed an amendment to legislation relating to the Census of Agriculture that prevented it from being put into operation. The issue is still unresolved.

Background

To obtain a more usable statistical definition of a farm and one that would better reflect the structure of the agricultural economy and produce better farm statistics, USDA and the Census Bureau have worked for several years to devise a new definition of a farm. The opposition has come from those who see the proposal (at best) as reflecting a lack of interest by USDA in problems of small-scale producers. But the present definition is unworkable. Probably no more than half of the places producing less than \$1,000 of products can be identified by the Census Bureau and enumerated. There is nothing magic about the \$1,000 level, but some upward change in the definition has to be made if we are to have a usable definition.

Options

USDA, the Census Bureau, and OMB could implement the farm definitional change as originally announced in August 1975 following long and careful deliberation.

Or, the farm definition could be changed by eliminating acreage requirements, and instead consider a dollar criteria of less than \$1,000. Mailing lists and resulting completeness would be fairly good down to \$600 of gross sales. Such a compromise would not lower farm numbers quite so drastically and might reduce opposition to a change.

The third option would be to retain the present definition. This would mean, however, that agricultural statistics would continue to include many small-scale marginal operations that contribute very little to total agricultural production. A special tabulation from the 1969 Census of Agriculture shows that farms with sales of less than \$1,000 accounted for only 4 percent of total farm acreage and only 0.5 percent of the value of farm products. There would also exist the problem of enumeration. The census is now conducted through a mailed questionnaire and these small farmers are extremely difficult to identify from official records reporting

farm income. As a result the Agricultural Census is accompanied by a high undercount that further compromises the value of the published data.

Role of USDA and ERS

The Department of Agriculture, the Bureau of the Census, and the Office of Management and Budget need to reach a decision, following careful consultation with Congress to avoid further time consuming and acrimonious hearings.

Research

To determine the number and characteristics of the population that will be reclassified from farm to nonfarm, ERS is collecting farm population data on both definitions of a farm. Preliminary data from the Census Bureau's Current Population Survey show that in 1975 about 2 million persons lived on places that would be disqualified under the revised farm definition. The decline in the number of farm residents as a result of definitional change appears to be heavier in the South. The Southern farm population would be lowered by almost a third compared to a reduction of about a fifth for residents on farms in the combined Northern and Western States.

Somewhat heavier rates of population loss would occur among blacks and other racial minorities on farms. The disqualified population was found to have a low dependence on agricultural employment. On most of the disqualified farms the residents were supported chiefly by off-farm work.

Once the issue is resolved the ERS in cooperation with the Census Bureau is planning to publish a report on the effect of the definitional change on the size and composition of the farm population.

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USDA's Role in Assisting Small Farm Operators

Issue

The future of small-scale farms in American agriculture is a major social concern. USDA has been asked to devise special research and extension efforts to help improve the farming operations and incomes of small farm operators. Much uncertainty exists over what should be done, and many questions arise. For example, are small farms doomed? Do research and modern technology only serve the needs of agribusiness? Are there specific options that society can pursue to help small farm operators succeed? Does the current "back-to-the-land" movement reflect a revival of small family farms?

Background

Over the past 25 years, the number of farms declined from 5.4 million to 2.8 million, and only large farms of 500 acres or more have increased in number. Much of the adjustment burden has fallen on small farms because modern technology has increased the competitive advantage of larger family-operated units, and some farmers and other family members have become more willing and able to accept off-farm employment. The steady trend toward highly mechanized capital-intensive production, and fewer and larger farms, has reduced the opportunity for gainful work in farm production, and contributed to the welfare, unemployment and other social burdens of our cities.

Despite widespread discussion, there is no universal definition of a "small farm." Since data are readily available, the gross value of farm sales is often used as a major criteria. Today, there are approximately 1.8 million farms in the United States having annual gross sales of less than \$20,000. If we further define a small operator as a person who is under 65 years of age and works off-farm for wages less than 100 days a year, then our estimate is reduced to about 700,000 farms.

In 1969, farms with annual gross sales of less than \$20,000 accounted for less than 11 percent of the total cash receipts earned from farming, but controlled about 42 percent of all farmland. As a group, small farm operators are heavily dependent on off-farm employment. In 1975, average net income per farm with annual gross sales of less than \$20,000 was \$14,300; but, only 16 percent of this income was earned from farming. Of course, small farm families are a diverse lot. There are many poor farmers who because of old age, inadequate education, and other problems, lack off-farm employment opportunities. Better data are needed to distinguish between farmers in their productive years who depend on the sale of farm commodities as their main source of income and other people with farm sales living in rural areas.

The future of small farms may not be entirely bleak. Attitudes have changed among some segments of the population in favor of farming as a

lifestyle. Between 1970 and 1975, the number of persons 16-34 years old and self-employed in agriculture increased by 93,000 persons, or about 35 percent; and the median age of self employed persons in agriculture declined from 53.1 years to 50.4 years. These data indicate that it is possible for young people to get started in farming, and to some extent, probably reflect a growing discontent with urban living. A large proportion of these young people probably entered farming through an inheritance and now operate farms with annual gross sales in excess of \$20,000.

Options

Policy officials have three primary alternatives: (a) remain neutral with respect to farm size and allow free market forces to determine the structure of agriculture, (b) attempt to tilt the balance of economic forces in favor of smaller farms, or (c) develop a compromise. Irrespective of the alternative adopted, the standard of living of small farm families can be enhanced by helping them to increase their earnings from farming and/or off-farm employment, and by providing better public services and facilities in rural areas. Five specific options which may be pursued in assisting small farm operators are:

1. Collect and analyze data on economic, demographic, and behavioral characteristics of small farm operators and their families. This information would be used to strengthen our understanding of the type and extent of assistance needed, and to develop reliable estimates of the net benefits of programs directed to small farmers.
2. Provide more intensive educational, technical, and credit assistance to small farm operators who have a realistic potential of becoming viable family farms. This option depends on identifying small farmers who have a high probability of succeeding. Existing expertise and programs can be used to select a better mix of enterprises, aid in adopting modern management practices and to expand the resource base.
3. Devise new technologies, management practices, and marketing strategies especially suited to the needs of smaller farms. Carrying out these activities will require an information base such as that described above. Some revision of extension information and teaching activities in a manner commensurate with the needs and abilities of small farmers may be necessary. Also, cooperatives may be used to strengthen the competitive advantage of small farmers in purchasing inputs and selling their products.
4. Evaluate the economic and social impacts of new production technologies and provide assistance to small

farm families in planning for and adjusting to technological change.

5. Provide more off-farm employment opportunities in rural areas and improve the quality of rural life.

Role of USDA

The USDA focuses on the problems of small farm operators through programs designed to: (a) help farmers produce and market food and fiber effectively, and (b) provide employment opportunities and improved living conditions in rural communities. Such programs include research and extension activities, subsidized credit, planning and technical assistance, and funds for the land grant colleges.

Title V of the Rural Development Act of 1972 authorized special research and extension activities in support of small farm operators, but they have not been implemented. The thinking was that such expenditures would be unproductive because modern technology has greatly increased the capital and management requirements of commercial farming and reduced the competitive opportunities of small farms in most enterprises; and off-farm employment and income is the major factor encouraging small farm operators to remain on the farm.

Research Available or Underway

Farms are being classified by geographic region, types of commodities produced, resource ownership, amount of off-farm income and other key factors. ERS researchers and others have participated in and studied the production practices of small farm operators in South Central Tennessee. A series of alternative farm management plans have been developed to increase net income by utilizing the surplus labor that exists on many small farms. ERS is cooperating with Tuskegee Institute to identify economic, social, and technical factors necessary for a small farm to develop into viable production unit. ERS is also studying the problems of minority farmers involving the ownership and transfer of real property. Research on State statutes covering tax sales is nearly complete and a follow-up study of partition sales and mortgage foreclosures is planned. Complementary work is being conducted by researchers at several universities and TVA.

Many other aspects of the ERS research program benefit small farmers, although not aimed exclusively at a particular group. For example, ERS maintains an inventory of economic and demographic attributes, and classifies rural areas according to their potential for economic growth. Efforts are being made to develop industrial location strategies that will create employment in rural areas. Another ERS activity involves working with local leaders to help them make decisions relating to community services. Technical assistance has been given to community leaders in

selecting a system of emergency mental service and organizing rural fire departments. Balanced rural development helps insure that small farm families remain in rural areas.

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Farm Labor Issues

Issue

In recent years, the USDA has taken positions on many farm labor related issues. Increased production costs and changes in labor supply are associated with many labor laws and regulations. In addition, benefits to farm workers are influenced by such regulations. Thus, pressure will probably continue for the development of Departmental positions on these topics.

Background

Since the mid 1960's, agricultural workers have been included gradually under existing and new Federal labor legislation. However, coverage for most programs is limited to workers employed on large farms. Currently, farmworkers on farms which hire at least 500 mandays of labor in a calendar quarter are protected by minimum wage legislation. The current minimum is \$2.20 per hour, moving to \$2.30 on January 1, 1978.

OSHA regulations, which include standards relating to temporary farm labor camps, machine guarding, roll-over protection structures for tractors, slow-moving vehicle emblems and anhydrous ammonia application are enforced on farms hiring more than 10 workers.

Farmworkers earning at least \$150 annually from an employer are covered under the Social Security Act. Farmworkers hired by labor contractors receive income, health and safety protection under the Farm Labor Contractor Registration Act. The 1974 amendments to this law also make farmers legally responsible, along with labor contractors, for maintaining appropriate employment records required by Federal statutes.

All unemployed farmworkers meeting employment and earnings test under State programs are eligible to receive unemployment insurance benefits under temporary anti-recession legislation which expires December 31, 1977. Beginning January 1, 1978, permanent legislation will provide coverage for farmworkers employed on farms hiring at least 10 workers for 20 or more weeks or who meet a quarterly payroll of at least \$20,000. States will have the option to expand coverage. The current unemployment program for farmworkers is financed from general revenues, but farm employers will share the cost of the permanent programs, based on the amount of unemployment benefits charged against their accounts.

In other recent developments, State employment security offices of the Department of Labor are now providing expanded job referral, testing and counseling services to migrant and seasonal farmworkers. However, in recent years employers of seasonal harvest labor, especially apple growers, who have used foreign harvest workers obtained through the Temporary Foreign Labor Certification Program, have had greater problems getting workers because of changes in administrative regulations.

Role of ERS and USDA

All of these farm labor related programs are administered by either the Department of Labor or HEW. ERS has provided staff assistance to the Department of Agriculture in the formulation of appropriate Departmental policy statements. Although USDA involvement in many farm labor related issues has been relatively minor in the past, an expanded research program can provide a basis for greater attention. The research can provide the basis for proposing administrative changes and/or changes in laws to the Departments of Labor and HEW.

Research

ERS has research underway to evaluate occupational and nonoccupational farm injury and illness occurrences, costs and causal factors.

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Collective Bargaining for Agricultural Workers

Issue

Considerable pressure is likely concerning laws to extend collective bargaining rights to agricultural workers. The USDA needs to have an official position on this issue.

Background

Farmworkers are excluded from the National Labor Relations Act, which extends collective bargaining rights to most of the Nation's labor force. Pressure for this legislation will come as an outgrowth of California's agricultural labor relations law, efforts to organize farmworkers in other States, and recent harvesttime strikes by food processing workers. Most growers seem to prefer Federal over State laws, except for those who prefer no law for agricultural workers.

The direct short-run impact on agricultural production from extending collective bargaining rights to farmworkers likely will be commodity specific. The impact on grain production should be very small, while producers of specialty crops, notably perishable fruits and vegetables, can expect a larger impact.

USDA has worked with the Department of Labor on developing an agricultural labor relations policy. The most recent product of this work is a draft bill to amend the National Labor Relations Act to include agricultural workers. The bill would provide for a separate Agricultural Labor Relations Board and General Counsel, which would have exclusive jurisdiction and responsibility with respect to agricultural workers. The bill exempts the smaller farms. Coverage is limited to farms employing 500 man-days or more of labor in any calendar quarter.

Options

Amend the National Labor Relations Act as proposed by the USDL-USDA draft bill. Propose legislation to create a separate National Labor Relation law for agriculture. Rely on States to pass separate labor relations for agriculture.

Role of USDA and ERS

The USDA and ERS have the responsibility to provide staff support and research for the formulation of policy on labor relations for agriculture. However, the responsibility for implementing Federal legislation would lie with the Department of Labor.

Research

USDA has no research underway on the impact of the proposed legislation on agriculture.

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Pesticide Registration Impacts

Issue

What will the ongoing EPA pesticide registration decisions do to U.S. agriculture and forestry?

Background

EPA is required to re-register all existing pesticides as well as to register new pesticides. A number of pesticides have not been re-registered or have been registered for restrictive uses due to actual or perceived risks to man and to the environment. Additional pesticides may be lost for certain pest management uses due to cancellation or restriction by EPA or due to withdrawal by the manufacturer. The economic implications of this loss are critical. It will have an effect on the country's ability to provide adequate food and fiber and on the wellbeing of those engaged in agriculture and forestry.

Effective pest management over the long run requires a variety of chemical materials. Other pest management options, such as biological controls, cultural techniques and the microbial pesticides, show promise as supplements to chemicals, but it is expected that chemicals will continue to be of critical importance for the next decade.

Options

Availability of materials for pest management--EPA must re-register currently used pesticides by October 1977.

1. If the fiscal year 1977 supplemental budget request for the National Agricultural Impact Assessment Program is not approved, ERS will participate in the program to the extent that presently available and redirected resources permit. Participation will be limited to staff response to selected RPAR chemicals. The approach will be to extend short-run producer impacts to the national level. The only source of new data will be the anticipated 1976 Pesticide Survey.
2. If the fiscal year 1977 supplemental budget request for the National Agricultural Impact Assessment Program is approved, resources will be available to provide staff response to each pesticide subject to an RPAR, to initiate surveys on selected pesticides for which experimental and economic data are unavailable and to initiate in-depth studies for priority pesticides. These in-depth studies include biological laboratory and field work and economic analysis of broad scope and a high degree of sophistication.
3. If additional resources are available, long-run issues beyond assessment can be addressed. These could include analyses of:

- a. Production and distribution of alternatives pesticide materials and techniques for pest control. These materials might include microbials (bacteria, viruses), genetic modifiers, growth regulators, attractants, use of predator and parasites and use of integrated pest management.
- b. Effects of market structure on behavior of pesticide industry.
- c. Effect of regulatory structure on innovation in pest control.

Role of ERS

The EPA re-registration process allows for input from USDA on pesticide benefits, and legislation requires EPA to notify the Secretary of Agriculture prior to cancelling a pesticide. Under the National Agricultural Pesticide Impact Assessment Program, USDA requested supplemental funds to enable it to more fully participate in the benefit assessment portion of the EPA re-registration process for those pesticides having important agriculture and forestry uses. Decisions on pesticides will be made regardless of the degree of USDA participation. Full USDA participation will assure accurate and objective data and analyses so that decisions maximizing the national interest can be made. The major responsibility of ERS is to identify and measure the economic and social consequences of continuing or discontinuing the use of selected pesticides for specific purposes. This will entail developing information on pesticide use, availability of supplies, prices, and other economic data and coefficients.

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Boll Weevil Eradication Program

Issue

Plans are being finalized for an evaluation of the boll weevil eradication program. This program, requested by OMB, will be funded in the FY 1977 and 1978 appropriations. Decisions on the interagency plans and funding arrangements will need to be made soon.

Background

Today, most cotton farmers protect their crops from boll weevil by repeated applications of insecticides to the fruiting plant. This strategy assures a late-season boll weevil population buildup, and, unfortunately, a perpetuation of the cycle. Estimated annual yield losses and weevil control now total more than \$250 million.

USDA is planning a 3-year evaluation of alternative boll weevil/cotton insect control strategies, beginning January 1977. The technical and operational feasibility of boll weevil eradication and optimum pest management will be evaluated through the use of large area demonstration trials in North Carolina (40,000 acres) and Mississippi (25,000 acres).

The objectives of the eradication trial are to: (1) determine the technical and operational capability to eradicate the boll weevil from a specified geographic area in a 3-year crop program; and (2) incorporate a pest management program for cotton pests, other than boll weevil, during the second and third years. The objective of the optimum pest management trial is to demonstrate that the boll weevil and other economic cotton pest insects can be kept at or below economic damage levels by voluntary participation of growers in a communitywide program.

The results will be extrapolated beltwide and projected into the future for comparison with current pest control practices. Federal, State and growers' costs for the 3-year study are estimated to be about \$50 million.

Role of ERS

The conduct of the boll weevil and pest management trials and the evaluation involves several USDA agencies. ERS is responsible for the overall and economic evaluations. Responsibilities for the other components of the trials and evaluations:

Eradication Trial in North Carolina -- APHIS
Optimum Pest Management Trial in Mississippi -- ES
Biological Evaluation -- ARS
Environmental Evaluation -- APHIS

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Energy Distribution to Agriculture

Issue

Ensuring the availability of energy in the form, time and place needed is an issue of vital concern to the agricultural community. Many of the gains in productivity evidenced in food, fiber and forestry in the twentieth century have been an outgrowth of energy dependent technologies. Yet energy normally represents only a small proportion (4 to 8 percent) of the agricultural producer's costs. The biological nature of agriculture makes it unique from other industries in that short term energy supply disruptions could affect an entire year's output, resulting directly in higher food prices.

Background

The Arab oil embargo in 1973 caused a \$10 to \$20 billion decline in GNP and considerable economic and social disruption, illustrating the vulnerability of the American economy. Although efforts have since been made to achieve a greater domestic self-reliance, the United States imports a larger proportion of its total oil needs (over 40 percent) than prior to the embargo. This trend is not likely to change, and no other energy form will take up the slack in the U.S. economy within the foreseeable future. Possibilities of another supply interruption due to embargo by OPEC, a resumption of Middle East hostilities or other occurrences (severe winter) remain very real.

Less than 2 percent of this Nation's energy is consumed directly for on-farm agricultural production. However, the total energy requirements of input manufacture, production, processing, distribution and use of food, fiber and forestry products account for about 22 percent of U.S. energy consumption. This translates into an energy bill approaching \$40 billion. Refined petroleum products play a major role, comprising over three-fifths of the needs in agricultural production and two-fifths of needs in the food, fiber and forestry system.

The Federal Energy Administration (FEA) has been mandated under Mandatory Petroleum Allocation and Price Regulations (MPAP) and the Energy Conservation and Production Act (ECPA) to develop programs to minimize effects upon the economy of an oil supply shortfall and to ensure equitable distribution of available energy supplies. FEA may elect to pursue one or more of the following options:

- (1) Increase domestic energy supply by producing beyond the most efficient rate and by drawdown of reserves.
- (2) Reduce public and private demand for energy through voluntary and mandatory conservation.
- (3) Distribute the available energy supply through allocation and rationing.

Under MPAP, allocation of middle distillates from refiners to bulk purchasers is regulated. Special problems associated with serving rural markets are accentuated during a period of oil shortage. For example, major petroleum companies have been inclined to withdraw from rural markets in favor of more profitable urban, high density markets.

Under ECPA, FEA developed five energy conservation contingency plans to reduce demand for energy (heating, cooling, lighting and water heating; weekend restrictions on retailing gasoline and diesel; boiler combustion efficiency requirements; commuter parking management and carpooling incentives; restrictions on illuminated advertising and certain gas lighting). Many of these measures affect components of the food system, such as boiler fuel use in food processing.

A rationing contingency plan has the goal of spreading available fuel among all users, giving priority to essential activities. Ration credits would be issued to firms (plus coupons to individuals) for intervals of approximately 1 month duration. Four percent of all ration rights would be held in reserve for use by State Ration Offices and FEA in alleviating deficiencies in the system. A "white market" would permit sale of ration rights, thus promoting efficient use of available gasoline. Industrial and commercial end users are classified in one of three categories: (1) 100 percent of current needs--includes "agricultural production," defined presently to include major input producers, farm producers and food processors, (2) 100 percent of base period and (3) 90 percent of base period use. Monthly energy use patterns in a recent year, such as 1974, would be implemented as the base. Firms whose growth or business practices result in energy needs exceeding by 25 percent the base period use in any one month may apply for relief in a case by case process.

Each conservation and rationing plan is to be based on a consideration of potential economic impacts on: (a) vital industrial sectors, (b) employment, (c) economic vitality of States and regions, (d) availability and price of consumer goods and services, (e) GNP and (f) anticompetitive features (Section 201 (f) of ECPA).

Options

To avoid a breakdown in the supply of food and fiber during an energy crisis, it is essential that the high priority for agricultural energy be maintained. USDA should have a strong voice in developing and implementing any contingency allocation or rationing system. Although existing mechanisms have contributed substantial input to FEA planning, difficulties exist in coordinating responsible USDA component agencies. In addition, active dialogue with FEA and other lead energy agencies perhaps should emanate from the Office of the Secretary for maximum effect.

Role of USDA

FEA has requested continued cooperation of USDA, and USDA's emergency preparedness role requires (1) evaluating appropriateness of the detailed definition of "agricultural production," (2) placing other segments of the food system in proper categories, (3) evaluating economic impacts of allocation, conservation and rationing alternatives upon the food, fiber and forestry system and (4) contributing information on energy use in agriculture and reviewing FEA data provided to States.

Issues and concerns encountered thus far include: (a) Inherent difficulties associated with defining all of the many complexities of the system are compounded by a paucity of data measuring energy needs, particularly on a monthly basis. (b) A proposed shift of agricultural production to category "2". High variabilities imposed by climate in terms of fuel quantities and timing, changing technologies and increasing acreages render the base year concept unworkable. (c) Timeliness of review in applying for relief would be critical to farmers if placed in category "2". (d) The farmer and other rural consumers may not have effective access to the "white market." (e) Exclusion of nonfood crops (cotton and tobacco) from category "1". Since most farms are multi-commodity producers, fuels allocated for food crops likely would be used in producing nonfood crops yielding higher revenues. (f) Suggested placement in category "3" of critical input and processing firms, such as phosphate rock mining and processing. This action could negate attempts to maintain agricultural production at high levels. (g) A concern that transportation of foodstuffs is not given high priority. Bottlenecks and spoilage could result. (h) Migrant farm workers, essential in many farming activities, may not be able to receive enough gasoline to move from one region to another.

Research Available or Underway

A data base covering energy use in agricultural production for 1974 by State, fuel type, commodity, operation and month has recently been provided by ERS to FEA for distribution to State energy offices. This information will aid in emergency allocation planning and in development of conservation programs. A final report, including projected energy needs, will be available early in 1977. The 1974 data have been transmitted to ASCS to assist in fulfilling its emergency preparedness obligations.

ERS also has prepared energy conservation guidebooks which identify conservation practices and assess their economics and potential energy savings. These are awaiting publication.

Although other research products exist which can contribute to USDA efforts to participate responsibly in planning for energy shortfalls, many deficiencies remain which sharply restrict this role, particularly beyond farm production. A task force report, A National Program of Agricultural Energy Research and Development, has just been released which details energy related research within the USDA and at land grant institutions.

Areas needing research are identified and the additional resource commitments discussed.

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III. INTERNATIONAL ISSUES

Overview

Agricultural Exports and the United States

U.S. agricultural exports play a major economic and humanitarian role, both at home and abroad. The United States is the world's leading exporter of agricultural products, accounting for approximately one-fifth of all farm commodities shipped in international trade. For some commodities, the United States is the world's major exporter, supplying over four-fifths of world soybean exports, nearly half of all feed grains, and large shares of world wheat, rice, tobacco, and cotton exports. In some countries, U.S. agricultural exports help meet severe food shortages and help upgrade diets. In other cases they provide an important source of leverage and influence, which, though limited, can have an impact. Our agricultural trade has helped to open up trade and dialogue with the Soviet Union.

Agricultural exports currently account for about 20 percent of aggregate U.S. exports, and are expected to total nearly \$23 billion in fiscal 1977, compared to \$22.8 billion in 1976 and \$8.2 billion in 1972. Net agricultural trade contributed roughly a \$12 billion surplus to overall U.S. trade balances in 1976, and helped pay for costly but essential petroleum imports. However, a large portion of that contribution is dependent on the high grain prices of recent years, and those prices may have declined in response to improved crops abroad. If 1975 grain and oilseed exports were valued at 1972 prices, the \$4.3 billion overall U.S. trade surplus would become a deficit of \$3.7 billion.

Agricultural exports are also directly important to the U.S. agricultural sector. Roughly one-third of U.S. grain production--about 25 percent of the corn and 55 percent of the wheat, for example--is exported. The output from roughly one out of every three acres (100 million acres) was exported in 1976.

Farm income depends directly on exports. In 1976, the value alone of U.S. agricultural exports equaled roughly one-fourth of total farm cash receipts, and this neglects the impact of foreign demand in holding up farm produce prices. Similarly, jobs and income in other sectors, such as transport, storage, processing and shipping, depend on farm exports. Furthermore, the sharp expansion of agricultural exports has contributed substantially to the revitalization of the U.S. rural economy.

International Work in ERS

Most ERS international work is done by the Foreign Demand and Competition Division (FDCD) and the Foreign Development Division (FDD), which have two different focuses. FDCD concentrates on foreign agricultural situation analysis, and short- and long-term research related to markets for U.S. agricultural exports. In brief, its mission is to

investigate factors and issues affecting U.S. agricultural trade, and to estimate U.S. export demand.

FDCD staff constitute about 14 percent of total ERS staff. In addition to division-wide situation work, it includes program areas for: Developed Countries; Developing Countries; Centrally Planned Countries; Statistics; Commodities; and Aggregate Demand, Resources and Policy.

FDD concentrates specifically on foreign economic development, providing mostly support services related to international training, technical assistance, international organizations and other development related programs. Its staff comprise 12 percent of total ERS personnel.

The World Food Situation

Issue

Among the most pressing issues facing world agriculture are the future of the world food supply and demand situation, per capita food trends, and world and national distribution patterns. World food authorities generally assert that the outlook is uncertain. A need for continuing critical and comprehensive examination exists due to the unreliability of much of the basic data, the unpredictability of government policies, the direction of the population growth rates, annual weather fluctuations and possible future climatic changes. Policymakers will need access to critical analysis of the best available information combined with careful delineation of alternative policy options and probable consequences to help ensure mankind's future food supply.

Background

A convergence of events produced the latest world food crisis. In 1972 poor weather in a number of key food producing and importing areas such as the Soviet Union, India, Australia, Africa's Sahelian states, and Southeast Asia, reduced world agricultural output for the first time in almost a generation. This small reduction (about 1.5 percent) in world food production impacted strongly on prices and availabilities to low income groups.

Previous Soviet crop shortfalls had been weathered inside the USSR by rationing and by reducing herds. This time the Soviet leaders opted to make up the shortfall by buying cheaply and secretly. Large Soviet grain purchases caught governments and world grain traders offguard and without contingency plans. In addition, several other countries sought to reduce domestic shortfalls or improve diets with cheap American grain. The large and sudden purchases drew stocks down and grain prices rapidly increased. The quantity of U.S. grain for international aid was sharply reduced from about 12 million metric tons annually in the late 1960's and early 1970's to 3-6 million tons from 1973/74 to 1975/76.

The oil embargo of 1973 further fueled inflation and destabilized international monetary relationships. Balance-of-payment difficulties resulted especially for those countries importing both food and fuel, now 3 to 4 times as costly.

Strong U.S. domestic interests called for export limitations which were put into effect several times to manage the limited supplies and limit price increases. The U.S.-Soviet grain agreement was negotiated in an effort to control some of the uncertainty by assuring the Soviet purchase of 6 to 8 million tons annually and requiring consultations before larger amounts can be purchased.

Present Developments.--By late 1976 the world food situation had significantly eased. Total world food output increased in 1976, but was

still below 1960-75 trend. Drought caused production shortfalls in Europe, where increased grain imports are anticipated. Soviet production in 1976 improved very substantially over the previous year but imports for increased animal feeding are expected. In the developing countries--where food availabilities are most crucial--both total and per capita food production were above the 1960-75 trend in 1975, and on or slightly above trend in 1976. With consumption still well below recommended minimum nutritional levels, the food situation in the developing countries remains vulnerable and dependent on current crop production.

The increases in 1976 in grain and other food crop production over wide geographic regions should reduce the import demand for grain and world prices. Record or near-record export supplies are available in the United States, Canada, other major exporting countries, and some usually marginal trading countries.

Longer-Term Developments.--Several comprehensive studies have concluded that the world has sufficient resources and technology to produce adequate nourishment for the world's population during the next decade, but policies of governments will have major impacts on the actual outcome.

World food production is projected to increase 2.4 to 3.0 percent per year depending upon different sets of assumptions about supply and demand growth. However, the uneven distribution of resources and the level of technology probably will necessitate increasing food imports for many countries, with the imports of developing countries as a group ranging from 40 to over 100 million metric tons of grain.

For perspective, although the global population has risen rapidly, particularly in the last several decades, world food supply has not only kept up but slightly outpaced population growth. The world's 3.8 billion people in 1973 had available 21 percent more food per person than the 2.7 billion had in 1954. However, per capita availabilities have increased only slightly in the poorest countries.

World population growth is one of the important parameters of the world food situation, and it has received increasing attention in the last two decades. The USAID program for family planning and population management dates from 1965. Presently, population aid is available for requesting nations. An estimated four-fifths of the food demand increase results from population increases and only one-fifth from increased income--however, widespread improvement income growth rates could alter this. P.L. 480 food aid legislation ties aid to internal efforts of the recipient countries to help themselves, particularly by increasing food and agricultural production and population planning programs. The use of food aid has been suggested to pressure the lowest income countries into policy changes; however, political and practical limitations might severely limit such a policy.

Research and Policy Implications

Growing international economic interdependence, a growing world dependency on food production in a few key countries, changing patterns of trade, and implications of recent declines in the growth of yields in some major producing areas and disappointingly low and stagnant yields in many developing countries--all these subjects need continuing research and analysis.

Increasing foreign exchange deficits in many developing countries pose grave problems for future food availability in these areas. Grain reserves are widely discussed as a means of mitigating the effect of production shortfalls and periodic famines. More study is needed on the mechanisms for holding and release of stocks in relation to possible consequences and side effects. A consensus of climatological research on changing weather patterns and most probable future climate changes must be found and incorporated into world food planning.

Research is needed on the effect of the U.S. and world aid programs on both production and consumption of food in the chronic food deficit countries. A number of international trade questions need analysis. Among these are international trade liberalization issues (tariff and non-tariff), the various discussions, negotiations, and proposals on commodity agreements, and ways of improving trading with centrally planned, state trading countries, especially the USSR.

The United States devotes an increasing share of its foreign aid to projects intended to increase the food production and improve nutrition in the developing countries. Research is needed on the most effective ways we could help them increase their food and farm production. The question of possible competition with U.S. exports has not yet been thoroughly examined, nor have the potential benefits or costs of technological transfer.

Role of USDA and ERS

ERS is the source of the most comprehensive data on national and international food and agricultural matters in the United States. An effort has continually been made not only to collect data and keep abreast of the field but to anticipate needs in this area to ensure that Congress and the Executive Branch have access to the best available information, research and analysis to use in policy decisionmaking. This role is becoming increasingly valued and will be probably even more crucial in the coming decades.

This mission is carried out by data collection and analysis and situation and outlook and research publications. These publications deal with immediate and short-term issues and are updated as indicated:

The World Agricultural Situation (published 3 times a year).

Seven Regional Agricultural Situation Reports on Western Europe, USSR, Eastern Europe, Far East, Western Hemisphere, Africa-Middle East, and the PRC, the World Fertilizer Situation Report, and Indices of World Agricultural Production (each annually).

Assessment of World Production and Needs and World Economic Conditions in Relation to Agricultural Trade (twice a year).

Foreign Agricultural Trade of the United States (a monthly journal which carries articles of current interest to the agricultural world as well as the latest U.S. agricultural trade statistics).

Outlook for U.S. Agricultural Exports (quarterly).

Treating medium and longer-term issues and problems are the World Food Situation and periodic reports from a projections program on world and regional agricultural production, utilization and trade. Specific commodity publications include recent studies on wheat, coarse grains, oilseeds, cotton, coffee, bananas, and palm oil. Numerous country studies are planned for completion this year and next.

In addition to the regular publications and projects and the special studies and staff reports are papers and addresses presented to conferences, universities, research and business groups, and private organizations upon request.

Individual and occasional studies have been undertaken on specific topics of immediate interest such as grain reserves, short- and longer-term weather patterns, the use of food aid in foreign policy, and the short-, medium-, and long-term outlook for agricultural exports to OPEC. Some were requested by Congress or the Executive Branch or suggested by universities and private groups and individuals while many were initiated internally to provide information expected to be needed in the future by policymakers and the general public.

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P.L. 480 and Food Aid Legislation

Issue

Current P.L. 480 program authorization continues through December 31, 1977, but changes can be made in P.L. 480 guidelines and restrictions in any foreign aid legislation. P.L. 480 legislation specifies multiple and diverse objectives including supply management (surplus disposal), development of export markets, combating hunger, encouraging economic development abroad, and promoting the foreign policy of the United States. Projections of chronic food deficits and the need to increase world production and concerns about the effectiveness of past P.L. 480 agreements led to recent amendments to the law which are intended to increase the emphasis on the development goals of the program. The essential issue is whether or not the law is to clearly define its goals and establish criteria by which to weigh its various objectives.

Background

The P.L. 480 food aid program has been in effect since fiscal year 1955. At present the P.L. 480 program provides roughly \$1 billion a year in food aid to various developing countries. Most is in the form of long-term government-to-government concessional sales agreements, which have a grant element of up to 60 percent. A smaller share of P.L. 480 exports--one-quarter to one-third during the 1970's--is in the form of grants by the U.S. government directly or through relief agencies and the World Food Program.

The decline in magnitude of the P.L. 480 program during the 1970's is directly related to the decline of grain stocks and domestic supply considerations. The volume of agricultural products shipped out under the P.L. 480 program fell to its lowest level in fiscal years 1973 and 1974. Thus, the importance of P.L. 480 exports to total agricultural exports has declined sharply. Total exports under P.L. 480 from fiscal year 1955 through 1976 equalled \$25.1 billion or 14 percent of total agricultural exports. However, the relative share of P.L. 480 exports in total agricultural exports has fallen from the high of 26 percent in fiscal year 1965 to 4 percent in fiscal year 1976.

P.L. 480 agricultural exports cover a wide variety of commodities. The major ones are: Grains (especially wheat and rice), cotton, feed grains (especially corn), dairy products, cottonseed and soy oil, tobacco, and blended foods. Some two-thirds of the value of P.L. 480 exports have been in grains. The importance of the program to U.S. producers is demonstrated by the fact that for fiscal years 1971-75 P.L. 480 exports of rice accounted for 31 percent of the total volume of U.S. rice production and P.L. 480 exports of wheat accounted for 10 percent of U.S. wheat production.

In the past 2 years Congress has become more interested in the food aid program as an instrument of economic development. Legislation has

specifically required that the bulk of P.L. 480 Title I exports go to the "poorest" countries. The 1975 Act requires that 75 percent of Title I sales of food commodities go to those countries with per capita income under \$300 and an inability to secure sufficient food for their immediate requirement through their own production or commercial purchase from abroad. The "Global Assessment" by ERS lists countries which meet the income criteria and evaluates the agricultural situation in the developing countries. Title I agreements must now also take into account the efforts of recipient countries to help increase their own agricultural production, especially through "small family farm agriculture; and steps to improve their facilities for transportation, storage, and distribution of food commodities."

Congress has also legislated a new provision, that of grantbacks. Thus, up to 15 percent of the P.L. 480 annual budget can be "granted back" to recipient countries for approved projects for agricultural development, rural development, nutrition, and population planning. However, the administration of this facet of the P.L. 480 program is presently up in the air due to the lack of criteria for determining what countries and projects meet legislative aims.

Options

ERS and the USDA have the responsibility of researching and administering the program. However, there is the option of recommending legislative changes which USDA feels appropriate. For instance, the OGSM feels that the 75-percent amendment presents a constraint on maximizing the supply management and market development goals of the program. ERS responsibility may focus more on the development aspects, their relation to trade, and their heightened importance in the legislation. Consideration may be given to augmenting the agency's analytical resources or to ending the program and substituting financial aid for food aid. Also instituting multi-year food aid commitments may improve the effectiveness of the program.

Role of USDA and ERS

The Secretary determines the agricultural commodities and quantities available for disposition under the P.L. 480 program. The basic USDA role in the P.L. 480 program is to initiate, research, and develop program proposals on quantities of food aid to be shipped to certain countries meeting the criteria for presentation at the Interagency Staff Committee (ISC). Prior to the ISC meetings the USDA position meetings are held to consider all of the factors affecting USDA's proposal and to reach a departmental position on the proposed program.

The current ERS role is virtually confined to background analysis for recommendations of terms for sales agreements proposals. ERS's FDCD provides financial analyses of each country under consideration for a Title I (sales) agreement describing the overall economic situation and the

short-run and long-run external financial situation and prospects. Repayment terms are recommended based on the economic situation as described and those terms are used or modified by the OGSM program coordinator for presentation to the ISC. Likewise, ERS's FDD recommends self-help provisions to be incorporated into the negotiated sales agreement if the ISC agrees on the program. Self-help provisions are those projects or actions which the United States wants undertaken with the local currency funds owned by the recipient government which have been generated by the local sale of P.L. 480 commodities. Both of these recommendations--repayment terms and self-help provisions--fulfill the function of interpreting and applying the P.L. 480 and Foreign Assistance Laws and their various amendments for the specific country program involved.

FDCD reports on quarterly P.L. 480 trade data in the monthly "Foreign Agricultural Trade of the United States" (FATUS). As required by law, ERS prepares for Congress an annual Global Assessment of Food Production and Needs and a semiannual update.

The overall role of P.L. 480 in total agricultural exports will probably grow along with the concern with future rising agricultural surpluses. Thus, the emphasis on the aims of food aid may shift back to surplus disposal. Already, the legislative limit of income levels of recipients affects the political use of the program. AID has moved into forward program planning in submitting requests for sales agreements. USDA may have to increase its profile in the program and ERS may be called upon to step up its research support work for the P.L. 480 program or to discontinue its present support role entirely. The future roles of ERS/FDCD and FDD, OGSM and AID might need to be evaluated.

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Grain Reserves

Issue

Should the U.S. Government develop a grain reserve program or should market forces be relied upon to determine stock levels? If a Government reserve approach is adopted should it be a unilateral or a multilateral effort? Should we continue to pursue reserve discussions in the International Wheat Council (IWC)? What should be the objectives for such reserves? Related questions are how reserves might be managed, who would hold them, and how much a system might cost.

Background

The tight world grain supply situation of the last several years is easing, boosting carryover stocks and dropping world grain prices. The U.S., in particular, will this summer have the largest carryover of wheat since the late 1960's.

Administrative action in October 1976 raise the support prices on grains, particularly wheat. Price supports relate directly to accumulation of supplies by the Government. Should farmers not adjust acreage this year, private demand for stocks will be saturated, leading to Government acquisition. On the other hand, feed grain stocks are relatively tight. Feed use of wheat is up. Thus, the grain situation is potentially unstable, and the same can be said of prices.

The United States has proposed in the International Wheat Council (see subsequent section) development of an international system of nationally held stocks to meet shortfalls in world food grain production. However, the prospect of large stocks accumulation in the U.S. reduces other countries' worries about food security and raises the prospect of the U.S. once again becoming residual supplier.

Multiple and sometimes conflicting objectives might be achieved by grain reserves, other stabilization policies, or a combination of policies. Objectives need to be defined before specific programs can be designed and costed. The objectives for consideration might include some or all of the following: (1) alleviate emergency food shortages at home and abroad, (2) moderate domestic price swings, and thus domestic farm income fluctuations, (3) ensure that export commitments can be met, (4) reduce world price or supply fluctuations to assure stability of access for developing countries, and (5) minimize Treasury costs and governmental interventions in the agricultural market.

Options

Market-Oriented Option. There is great uncertainty as to the stocks volume the private sector will hold over time. In recent years, the U.S. has followed a relatively open market policy, with little Government intervention.

The present GATT trade negotiations provide a forum for bringing about freer trade and a wider sharing of the adjustment burden that results when major crop shortfalls occur. But there has been no significant progress toward this goal. An adjustment approach could be more acceptable if the MTN were successful in lowering trade barriers in the world.

Food Aid Reserve Sub-Option. Some have proposed that the market-oriented approach be coupled with a small reserve for meeting emergency needs in developing countries when they are threatened by famine or radical increases in the market cost of grain.

Trade Control Sub-Option. Some would argue that the U.S. should impose trade controls when U.S. supplies are short since many other countries follow this approach. However, export controls would affect U.S. credibility as a supplier and affect the longrun growth in exports and foreign exchange earnings. Controls may also deprive low income countries of needed supplies in tight market situations. Meeting commitments to commercial buyers abroad may, in years of tight demand, substantially reduce availabilities for food aid.

Bilateral Agreement Sub-Option. Bilateral trade arrangements (understandings) could help stabilize purchases in our markets. Already the U.S. has negotiated several trade arrangements in an effort to identify reliable buyers and better anticipate demands. It is difficult to assess the effects of these arrangements because, except for the U.S.-USSR grains agreement, they are not binding on either party. To the extent that these arrangements are successful, they should help stabilize our trade with a few countries but they will not necessarily assure world or U.S. market stability.

Domestic Grain Reserve Options. The pre-1973 price support program was used mainly to protect farm incomes, not to serve as a reserve system. But the large surpluses, were a burden on taxpayers and put a ceiling on farmers' crop prices.

For the present farm program to serve as a grain reserve or buffer stock program, appropriate loan rates for accumulating grain stocks, establishment of resale prices, and procedures for adjusting these prices under changing circumstances would need to be specified. Otherwise, establishment of a reserve would only serve as a one-time windfall to agricultural traders. A decision would have to be made as to what portion of the reserve would be held under loan or extended loan by farmers or their grain cooperatives and what portion, if any, would be owned and controlled by the Government. Further study is also needed on the impact of increased Government holdings on the incentives of private traders. It has been suggested that as Government reserves increase, private reserves fall. Policies for graduated release of reserves may be needed to avoid dumping. Of particular importance is the range in which prices would fluctuate. The range should be flexible over time and be wide enough to permit efficient resource allocation, and allow prices to seek their longrun equilibrium levels.

In lieu of the loan program for reserve stock management, the Government could purchase directly in the market or it could develop a subsidy program designed to increase participation for holding reserves in the private sector so as to reduce Government outlays from possible acquisition and storage of grain. A subsidy program may not be as effective as the loan program or direct purchase in meeting price objectives, but it might be satisfactory for making grain supplies available in times of shortage.

Some domestic reserve proposals call for trade monitoring and standby controls to ensure the availability of supplies for the domestic market. Provisions for acreage set-aside and export subsidies may be needed on a standby basis for controlling the accumulation of reserves.

The main issues to be resolved with regard to a domestic reserve program are: (1) establishment of stabilization and marketing objectives (2) the role of the Government and private sector, including cooperatives, for carrying reserves, (3) the level of reserves to be held and whether increased Government reserves will immediately trigger a drop in private reserves, and (4) the mechanism for release and acquisition of reserves.

International Grain Reserve Option. As mentioned, the U.S. proposal at the International Wheat Council calls for an international system of nationally held stocks (25 million tons of wheat and 5 million of rice) to provide security against shortfalls in world food grain production. Responsibility for holding reserves would be shared among participants. Internationally agreed upon guidelines, based on quantitative indicators, would be used to assure properly coordinated action on the part of participants.

If the United States should continue efforts toward an international grain reserve system, some linkage between the operation of domestic farm programs involving grain stocks to the operation of an international reserve would likely be required.

If the United States decides to pursue the IWC discussions with a view toward bringing about an international reserve system some new action on our part may be required. There are several areas that could involve compromise.

One area deals with the objectives of the agreement and mechanism for release and acquisition of reserves. Other trading countries have emphasized price stabilization as opposed to "food security" supported by the U.S. as the major objective for such an agreement. In this regard the U.S. has proposed a consultative mechanism triggered by quantitative indicators based on deviations in food grain production and stock levels. Other countries have favored price-based indicators and even linking grain reserves directly to the maintenance of price ranges.

Another unresolved area is the participant rights and obligations. Many believe for an effective agreement member countries would have to fulfill their obligations under the agreement by holding a stated quantity

of reserves and by making them available on a priority basis to participants. The U.S. market-oriented policy of recent years has raised the question about our willingness to undertake such obligations.

Another area for negotiation is the size and composition of reserves. The U.S. proposal deals only with food grains. The question of coarse grains is unresolved.

Discussions in the IWC have focused on reserve proposals with trade implications that would eventually have to be taken into account in any negotiation of grains in the MTN. One alternative would be a modest stocks arrangement without trade implications, such as establishment of a small reserve to provide food aid or emergency relief to developing countries.

Legal Considerations

There are unresolved legal questions on options for grain reserves. The question whether CCC has authority to place stocks (other than those acquired through price support operations) in a reserves position for extended periods has never been resolved. Price limitations on sales from CCC stocks might present a barrier to unqualified utilization of reserves.

Role of USDA and ERS

The present farm program may have to be modified by USDA to accommodate a reserve system. ERS has been analyzing farm programs and grain reserves both in a domestic as well as an international context.

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International Wheat Agreement

Issue

Should the United States seek to negotiate a new International Wheat Agreement, and if so, what would such an agreement encompass?

Background

Since February 1975, a policy-level Preparatory Group under the International Wheat Council (IWC) has held a number of meetings to examine the possible bases for a new international agreement. Progress has been stalemated by differing views on the type of agreement and the role of prices and reserve stocks. At the December 2, 1976, regular session of the IWC, it was concluded that the Preparatory Group should meet in early 1977 to see if existing differences have narrowed. If so, a June Council meeting may establish a negotiation timetable. However, other IWC members have not accepted the U.S. proposal for a new agreement based solely on a reserves arrangement, although most countries have indicated a willingness to negotiate an agreement that includes provisions for both prices and reserves.

The current agreement contains no economic provisions but does provide for a Food Aid Convention, where members provide a specified amount of grain or cash equivalent to food-deficit developing countries. Wheat agreements prior to 1967 contained minimum and maximum price provisions. However, these were so ambiguous that they permitted almost any pricing actions by competitors to be defined as being in compliance. In 1967, the revised agreement introduced a mechanism for a much higher degree of price discipline. However, the agreement included a number of negotiated advantages for some of the participating countries. When these advantages were exercised, objections were raised and the agreement was dubbed a failure.

Since the current 1971 agreement, now scheduled to expire June 30, 1978, contains none of the traditional provisions regarding prices and rights and obligations of former agreements, most countries have been particularly anxious for reestablishing these features in a new agreement. The U.S. interest in a new agreement has centered primarily on provisions for grain reserves. At the September 1975 Preparatory Group meeting, the U.S. submitted a proposal for establishing an international system of nationally held grain reserves. The responsibility for holding 30 million tons of reserve stocks would be shared among participants (see section on Grain Reserves for further information). The purpose of this reserve would be to provide "food security" against shortfalls in world food grain production rather than to act as a buffer stock for regulating price movements. However, it is the latter point in which other IWC members have shown a strong interest.

Preparatory Group examinations over the past year revealed increasing technical difficulties confronting the reestablishment of price provisions. Despite these obstacles, virtually all other IWC members are now prepared to negotiate a price range which might be supported by either buffer stocks or some type of trade regulating provisions.

There are also wide differences regarding the grain reserves aspect. Many countries want to link price provisions to grain reserves. The U.S., and more recently the USSR, have been opposed to this linkage; moreover, the USSR has opposed any negotiations on grain reserves. There are also differences on the size of reserves and rights and obligations under a system.

Reserve discussions in the IWC have focused on proposals with trade implications that would eventually have to be taken into account in any grain negotiations in the Multilateral Trade Negotiations (MTN's). The main conflict that is delaying progress in the IWC as well as in the MTN's is the standoff between the United States and the European Community over negotiations affecting trade in agriculture.

Options

Where price provisions alone are concerned, there are three main options for the U.S.: (1) reject any form of substantive price provisions, in which case the current agreement might be allowed to lapse or be extended, (2) accept the pre-1967 form of price provisions, with a possible wider range, but knowing that this could at times limit the volume of U.S. commercial wheat exports, or (3) devise a new form of price provisions in which pricing below the minimum would not be precluded.

The main U.S. options for grain reserves in the IWC appear to be to: (1) concede that one of the roles of reserves would be to help keep world trade prices within an agreed range, (2) discontinue discussions and pursue domestic reserve proposals or other unilateral and bilateral policies, or (3) devise a more modest approach, aimed mainly at food security for developing countries, perhaps to be incorporated into the Food Aid Convention. (See section on Grain Reserves for further discussion of options).

An important variant to any of these options is the relationship to feed grains. Any agreement will likely have to take account of the adjustment factor in livestock feeding, with consideration of the advantages and disadvantages of extending any reserves or price provisions to include feed grains.

Role of USDA and ERS

The Department of State's Office of Food Policy and Programs and USDA's Foreign Agriculture Service have represented the U.S. Government at the IWC meetings. ERS was heavily involved in early stages in the analysis of reserve options and the question of size of reserves leading to the development of the U.S. proposal submitted at the IWC. ERS has closely followed discussions and has provided backup work as needed.

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International Commodity Agreements and UNCTAD Integrated Program

Issue

In May 1976, the United Nations Conference on Trade and Development (UNCTAD) passed a resolution "to adopt an integrated commodity program." That program would include commodity discussions which could lead to negotiations for international commodity agreements. While accepting the consensus resolution, the United States agreed only to participate in meetings on commodities, without commitment to negotiate agreements or to undertake other specific measures. Developing countries' see the program as fundamental in their efforts to obtain a more equitable share of world gains from trade. We are committed to discussion of commodity problems case by case.

Several important meetings requiring USDA attention will be coming up early in 1977. Negotiations for agreements are scheduled for sugar (April), cotton and oilseeds (June-July), and meat (December). Negotiations for the common fund begin on March 7. The common fund is a key part of the program; if created. It could be used to finance market intervention measures or other perceived solutions to problems of individual commodities.

Background

The United States is a member of the coffee, wheat, and tin agreements, but has not joined the recently negotiated cocoa agreement. Only the tin agreement, which is the oldest, may have had limited price stabilizing impact. Many problems will probably develop in trying to reach and implement a series of commodity agreements as envisioned by the UNCTAD program. It is unclear whether developing countries as a group would benefit from the program.

Developing countries themselves have reservations about it. Colombia reportedly has asked that coffee be excluded from it. And there seems to be increasing awareness by the developing countries of the importance of keeping prices near long-term equilibrium levels if supplies are to be adequate but not in surplus. Recently, there has been reduced emphasis on "indexation" (linking of prices for developing country commodity exports to prices they pay for manufactured imports).

Options and Policy Implications

At least 4 general policy options are relevant, most of which focus on the UNCTAD program. To be effective, it must provide sufficient monitoring, feedback, and flexibility to respond to unforeseen problems and changing conditions. Most of these options have not been analyzed to determine costs and benefits and the impact on U.S. interests. If U.S. interests are to be protected, we may have to explore alternatives and perhaps take some initiatives, rather than continue a relatively passive approach.

Selective Support of Measures. The United States can probably already support many points in the program. We have already taken separate initiatives for some of the specific measures included in the resolution such as increased and liberalized compensatory financing (by the IMF); reduced trade barriers and improved market access (in the Multilateral Trade Negotiations and through the Generalized System of Preferences); and improved developing country infrastructure, production and processing of primary commodities (through a U.S. proposal at Nairobi for an International Resources Bank). The Resources Bank proposal received scant attention, probably because it focused on private, foreign investments which most developing countries distrust.

Case by Case Commodity Agreements. This approach is the present U.S. position. Some commodities are more amenable for agreement between importers and exporters than others, for various reasons. For some commodities the benefits probably would be small and limited to a few countries which may not be the poorest.

Common Fund for Buffer Stocks. The UNCTAD program includes a common fund to support all commodity buffer stocks, with the idea that coordinated financing will reduce total management and financing costs, while facilitating a number of commodity stabilization programs. However, the actual economies of scale may not be large because generally each commodity has its own special market. And recent experience, when prices for many commodities moved together in the same direction, calls into question the notion that drawings from and replenishment of such a common fund will balance out. A large fund would also present political and management problems. Overall cost estimates from various sources range from about \$6 billion to about \$30 billion. At the heart of U.S. reservations on the common fund is the conviction that it is based on two faulty premises: (1) that price-stabilizing agreements are the best answer to commodity problems, and (2) that lack of financing has been the chief obstacle to formation of buffer stocks. We find other more substantive reasons why commodity agreements have not proliferated, related to the particular nature of given commodity markets, the perishability of some commodities, and the probable economic infeasibility of buffer stocks for other commodities. The U.S. approach has been to identify the fundamental causes of commodity market malfunction and examine various means of dealing with each of them. In some cases, a price stabilization agreement may be appropriate; in other cases, measures related to trade, investment, marketing or production would be more effective.

Complete Acceptance. Complete acceptance of the Program as proposed would probably not be optimal for the developed or developing countries. In addition, the resolution is vague on many points, so that essentially only the intention, not the structure, is reasonably clear.

Role of USDA and ERS

The State Department's Economic and Business Affairs Bureau had the lead in preparing for UNCTAD. The interagency Commodity Policy Coordinating Committee handles commodity policy issues; Agriculture's representative is the Assistant Secretary for International Affairs and Commodity Programs.

USDA's FAS has had responsibility for developing foreign agricultural commodity policy and working with UNCTAD. ERS has had no direct role, but is now conducting some preliminary research.

Research Available or Underway

Preliminary research and data collection have been accomplished. Research is needed to determine the amount and distribution of costs of benefits of the UNCTAD program, and its impacts on trade, commodity demand and supply, and national economies, and to investigate alternative solutions and options. References include:

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Trade Liberalization

Issue

The United States and some 90 countries are presently engaged in the "Tokyo Round" of Multilateral Trade Negotiations in Geneva to liberalize world trade. Throughout the negotiations, major differences on the scope and the approaches to the treatment of agriculture have arisen between the United States and other major participants, which has led to an impasse.

The United States believes it will be impossible to achieve liberalization of agricultural trade unless restrictions on agricultural products are negotiated as part of a comprehensive settlement including both agricultural and industrial products. The United States is concerned about trading practices and quantitative restrictions in Japan and with variable levies, import deposits and export subsidies in the European Community (EC). The EC, and to some extent Japan, would like to negotiate agricultural trade problems separately from industrial problems because in their view agriculture is a special case where production and trade of agricultural commodities are related to special social and political conditions which underlie domestic agricultural policies.

A related issue involves tariff concessions granted by developed countries to developing countries under the Generalized System of Preferences (GSP). Many developing countries are concerned that Most-Favored-Nation tariff reductions resulting from the MTN will have an erosion effect on the preferential margins generated by various GSP schemes and that these reductions will affect products currently covered as well as those subject to preference as GSP coverage is extended.

Background

Multilateral Trade Negotiations (MTN)

The MTN, under the auspices of GATT, was launched in September 1973 by the signing of the Tokyo Declaration. Six working groups, established by the Trade Negotiation Committee in 1974, form the framework for the negotiations--Tariffs, Nontariff Measures, Agriculture, Tropical Products, Safeguards and Sectors. The Trade Act of 1974 authorizes U.S. participation until January 1980. Delegates have pledged to strive to complete a negotiating package by the end of 1977; if achieved, it will be submitted for Congressional approval in early 1978. In December 1976, the Agriculture Group met and resolved several issues involving the approach to agricultural products which had held up work in Group Agriculture and other MTN groups. As a result of this meeting, work in the entire MTN should move forward in early 1977.

Agriculture Group. It is the treatment of the products in the Agriculture Group and its subgroups (meat, dairy, and grains) that has initiated the various impasses in the MTN. The Trade Act of 1974 calls for the negotiation of agricultural trade barriers and distortions to be

undertaken "in conjunction with" those of industrial products in order to obtain balanced competitive opportunities for U.S. exports. The EC's negotiating mandate calls for agriculture to be negotiated separately; therefore, the EC has taken the position that all matters with agricultural aspects be confined exclusively within the Agriculture Group. The EC is seeking to minimize the impact of changes negotiated in the MTN on its Common Agricultural Policy. In December 1975, the Agriculture Group agreed to a notification/consultation procedure on "other products" (agricultural products other than those in the subgroups), to treat tariffs and nontariff measures relating to agricultural commodities, and to collaborate with other groups. Notifications on "other products" have been submitted by several countries, and consultations will begin in early 1977.

In contrast to the U.S. aim, the EC and Japan maintain that stabilization of international markets should be the goal and that international commodity agreements should be negotiated. The EC has proposed an International Grains Agreement utilizing buffer stocks to stabilize prices and which includes purchase and supply commitments. The United States prefers a grains agreement to be discussed at the International Wheat Council (IWC). The IWC talks, which are continuing, will be taken into account at the MTN at an appropriate time. Work on meat and dairy products has primarily been analyses of international trade measures and examinations of market structures and trade practices of various countries in those sectors.

Some have suggested that the United States should consider further reducing some of its trade restrictions on agricultural products which are of special interest to the EC.

Tropical Products Group. This group was established as a special and priority sector for developing countries. In March 1976, the United States offered 41 developing countries Most-Favored-Nation concessions on almost 150 tropical products, valued at approximately \$1 billion annually. The offer was made contingent upon benefiting countries granting reciprocal concessions to the United States. January 1, 1977 was the target date for implementation of developed country offers. But the United States has not completed consultations with developing countries on the question of reciprocity. The United States has agreed, however, to implement that part of its offer for which concessions were received. The United States is the only country seeking reciprocity in this Group.

Other Groups. Several countries, including the United States and EC, presented tariff reduction formula proposals during 1976 in the Tariffs Group. The U.S. believes the general tariff formula should apply both to agricultural and industrial products, while the EC opposes its application to agricultural products. Progress in the Nontariff Measure (NTM)/Quantitative Restrictions Subgroup has also been limited because some countries refuse to take up agricultural quantitative restrictions. Work has been held up on both the agricultural and industrial aspects of a draft standards code because of the EC insistence that the Agriculture Group act formally. The draft code was circulated by the NTM/Standards Subgroup to the Agriculture and Tropical Products Groups for their examination of health and sanitary regulations concerning products in those groups.

In October 1975, the United States submitted a concept paper on the approach to a subsidy/countervailing duty code that categorized subsidies as prohibited, conditional, or permitted. The United States is seeking a code with comparable treatment of agricultural and industrial products because some of the principal subsidy problems relate to agriculture and present GATT provisions differentiate between the two sectors. At the U.S. suggestion, the GATT Secretariat is compiling an inventory of country positions on the basic issues in this field. Japan and the EC have repeated their positions that agricultural aspects should be pursued in the Agriculture Group.

A separate but related issue concerns poultry/brandy trade between the United States and EC. In November 1976, President Ford partially restored the duty on brandy (mainly French cognac) imported from the EC because a 2-year agreement which decreased the duty on such brandy was judged to have failed to prompt of EC trade concessions for U.S. poultry exports. In retaliation, the EC took further restrictive measures on U.S. turkey parts in December. U.S. negotiators are expected to raise the issue at the MTN.

Generalized System of Preference (GSP)

Preference schemes for the United States and other developed countries originated at the first UNCTAD session in 1964. A GATT waiver in 1971 authorized developed countries to grant these preferences to developing countries for 10 years. As authorized by the 1974 Trade Act, the U.S. implemented its scheme in January 1976. The U.S. scheme is designed to help developing countries increase their foreign exchange earnings and diversify their economies. Approximately 130 countries and territories were designated as beneficiaries for U.S. tariff preferences and more than 2,700 products, including 300 agricultural commodities, were made duty free. U.S. imports of these agricultural commodities amounted to \$3.5 billion in 1974. Although some domestic commodity groups are seeking exceptions from the commodity list because they will be adversely affected by duty-free access, the impact of the GSP on U.S. agriculture is uncertain.

In the Tropical Products Group at the MTN, several developing countries requested GSP concessions on products of interest to them, including agricultural products. Most developing countries are discontent with the exclusion of many agricultural products of export interest to them from various GSP schemes. They are also concerned that their margins of preference and benefits of GSP will be eroded as a result of Most-Favored-Nation (MFN) tariff reductions. While the United States is offering only MFN concessions in the Tropical Products Group, several countries, including the EC, are offering an expansion of their GSP schemes as well as MFN concessions. In the U.S. view, GSP is a unilateral, nonreciprocal, nonnegotiable grant that should be kept separate from the MTN.

In spite of the U.S. and other participants seeking special and differential treatment for developing countries in other areas of the MTN, many developing countries doubt that trade liberalization will generate

enough foreign exchange to accelerate their economic development. The developing countries recently proposed an integrated program for commodities at the 1976 UNCTAD IV to further achieve these objectives. (See section on International Commodity Agreements and UNCTAD Proposals.)

Options

Because of the complexity of these negotiations covering both agricultural and industrial products, in addition to all aspects of trade policies and measures being under consideration, specific options or alternatives are difficult to delineate.

Role of USDA and ERS

Trade negotiations in the MTN have been directed by the President's Special Representative for Trade Negotiations, Ambassador Frederick Dent. Clayton Yeutter has been a Deputy with special responsibility for agriculture. An Agricultural Policy Advisory Committee (APAC) and an Agricultural Technical Advisory Committee (ATAC) have advised them and the Secretary of Agriculture on agricultural policy issues. ATAC is composed of groups on cotton, dairy, fruits and vegetables, grain and feed, livestock and products, oilseeds and products, poultry, and tobacco and its executive secretary is from FAS. The Director of Agricultural Economics has met with the APAC and ATAC on various occasions.

FAS has had the lead in developing USDA positions for trade liberalization. ERS has been keeping current on the progress of the negotiations, identifying key policy issues as they develop, and analyzing issues on request.

Research Available or Underway

FDCE/ERS has a continuing program of data compilation and analysis of foreign agricultural developments that affect U.S. agricultural trade. Long range projections of regional and total world production, utilization, and trade of major agricultural commodities are maintained and periodically updated. In FY 1976 a series of in-depth country market studies were initiated to identify and estimate the impact of factors within foreign countries that cause changes in imports, particularly imports from the United States. The first reports will be available in FY 1978, but some of the analyses will be available for staff use in FY 1977.

Agricultural Trade and the Proposed Round of Multilateral Trade Negotiations. Prepared at the request of Peter Flanigan, former Assistant to the President for International Economic Affairs, for the Council on International Economic Policy. FAS, ERS and ASCS, 1973.

Agricultural Import Barriers of Developed Countries. Unpublished report, ERS/FDCE, 1972.

Employment, Labor and Income of Japanese Farm Families 1970 and under Alternative Policy Paths to 1985. Unpublished report, ERS/FDCD, 1972.

Agricultural Trade Barriers on Livestock and Dairy Products 1970-1972. Unpublished report, ERS/FDCD, 1974.

Measures of the Degree of Protection of Grain and Livestock in Western Europe, Japan and the United States. Unpublished report, ERS/FDCD, July 1973.

Multilateral Trade Negotiations Country Profiles, prepared at the request of FAS. ERS/FDCD, 1975.

Alternative Projections of Production, Consumption and Trade in 1985. Unpublished report, ERS/FDCD, 1973.

The Impact of Dairy Imports on the U.S. Dairy Industry. Agriculture Economics Report, No. 278, ERS/CED, January 1975.

Projected EC Farm Labor Needs and Incomes of Farm Workers in the Grain Livestock Sector. Unpublished report, ERS/FDCD, 1973.

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Developing Countries As Markets Or Competitors

Issue

The developing countries now are collectively the largest commercial outlet for U.S. agricultural exports, and may well become more important. That depends importantly on their export trade and their economic growth in both agricultural and industrial sectors. Foreign assistance aids in their economic development; U.S. aid in particular focuses on agricultural development and production of food, often the very products we export to them. The issue for the United States is how to most effectively assist in their development while reconciling trade-offs that exist between domestic producer and consumer interests and facilitating adjustments to changing market conditions and patterns in our own agricultural sector.

Background

Developing countries accounted for two-fifths of U.S. commercial farm exports in 1975. If exports under P.L. 480 are included, they become an even more important outlet for U.S. farm exports.

The developing countries include some of our most rapidly growing markets. This growth in commercial demand for U.S. agricultural products is not entirely a recent phenomenon. An ERS study of the experience of 66 developing countries from 1957 to 1964 showed that an increase in per capita income of 10 percent was associated with a 25-percent increase in agricultural imports in developing countries, an 11-percent increase in medium income countries, and an 8-percent increase in developed countries. More recently, the largest percentage increases in U.S. agricultural exports have been to centrally planned countries, to Africa, Asia, and Japan, with the smallest increases in Western Europe and Canada followed by Japan. Particularly rapid growth in 10 developing country markets has been documented by ERS research.

A major source of growth in the developing countries will be growth in their agriculture. The United States, other developed countries, the OPEC countries, and international donor agencies help the LDC's increase their food and agricultural production through technology transfer and investment in agricultural and rural development. The United States devotes a growing share of its bilateral foreign aid to increasing agricultural production in the developing countries and also makes substantial contributions through international organizations. The IBRD has been increasing its lending for agricultural development and provided loans of around \$1.8 billion for agriculture in 1976. An International Fund for Agricultural Development with initial resources of around \$1 billion will also contribute to an increased flow of funds into agricultural development.

The need to promote agricultural development and to increase food production in the developing countries is widely recognized. U.S. aid for these purposes has been justified partly on the grounds that it helped poor countries meet critical domestic needs for agricultural commodities which

they could not afford to import commercially or that it promoted economic growth which generated an effective commercial demand for agricultural commodities, many of which could be supplied by the United States. More recently it has been realized that technological change and investment in the agriculture of developing countries may also result in heightened competition in world commodity markets and the transfer of comparative advantage.

The recent controversy over oil imports from Asian and African countries illustrates the problem. Multilateral investment, to which the United States contributes, led in part to increased production and trade in palm oil, particularly by Malaysia and certain West African Countries. U.S. vegetable oil producers and processors protested the duty-free palm oil imports, and the U.S. Senate resolved that the World Bank ought to refrain from making additional loans for palm oil production.

Increased soybean production in Brazil also shows how technology transfer can fuel competition for U.S. farmers.

Policy and Research Implications

Palm oil and soybeans illustrate the policy conflicts that can arise particularly when agricultural development assistance is successful in increasing aggregate supplies of competing agricultural commodities and when trade restrictions do not impede market access. Potential for such conflict exists for other commodity sectors, including other oilseeds and products, livestock, and fruits and vegetables.

Issues for research involve trade-offs between producer and consumer interests. Increased production and trade by LDC's of products that compete with U.S. exports could lead to sectoral adjustments in U.S. agriculture. Agricultural and economic growth in the developing countries will also increase the demand for commodities U.S. farmers grow. Consumers also have an interest in promoting agricultural development abroad. Increased supplies of food and agricultural products relative to demand can result in lower food prices over the long run if restrictions do not impede trade.

Role of USDA and ERS

AID has the major responsibility for administering the U.S. foreign assistance program. Treasury and State have a large voice in determining U.S. policies with respect to World Bank lending for agricultural development and for other purposes. USDA participates in interagency discussions on World Bank loans for agricultural development. Within USDA, FAS and ERS have been involved in analyzing the effects of increased imports of competing products.

Research Available or Underway

A study is underway on the impacts of aid and technological change in developing countries on their agricultural production and trade in commodities of export interest to the United States.

"Prospects for Oilseeds and Products with Projections to 1985," ERS Working Paper prepared for NAC, 1976.

"Analysis of the Fats and Oils Industry to 1980 with Implications for Palm Oil Imports," ERS, CED, August 1976.

"Agricultural Imports by Major Developing Countries," ERS, FD CD, 1976.

"Foreign Economic Growth and Market Potentials for U.S. Agricultural Products," ERS, FD CD, 1976.

World Agricultural Situation, ERS, FD CD, (Periodically).

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USDA Organization of Information Systems on World Agriculture

Issue

Should USDA make major changes in the organization of its existing information system on world agriculture, which presently requires coordination of some of the activities of ERS, FAS, and SRS? Should USDA combine commodity analysts from FAS and ERS's FDCC into one administrative unit? Should the unit be in FAS, in ERS, or in a separate organization (possibly including analysts of domestic commodity situations)? Should USDA give FAS, ERS, or possibly the Outlook and Situation Board (OSB), exclusive responsibility over the publication of outlook information on foreign crops and trade? How should the Large Area Crop Inventory Experiment (LACIE) group (using satellite imagery) be organized when it becomes operational? How should its output be coordinated with related information presently generated by FAS, ERS and SRS?

Background

Questions have been raised about why the big changes in agriculture worldwide in the past few years were not foreseen more clearly and better warnings issued.

Both FAS and ERS (particularly FDCC), operating under different Assistant Secretaries, have important roles in the collection, analysis and dissemination of information on world agriculture and foreign trade in agricultural products. SRS is responsible for estimating U.S. crop production. When ERS was organized in 1961 the Foreign Agricultural Division and the International Trade Statistics Branch were separated from FAS, reorganized into two divisions, and given responsibility for analysis of world agriculture and coordination of trade statistics. FAS, in addition to its program responsibilities, retained commodity specialists to analyze world commodity developments. Secretary's Memorandum No. 1769, dated September 16, 1974 assigned to FAS responsibility for supplying the Commodity Estimates Committees with forecasts of U.S. agricultural trade ("coordinating with the Economic Research Service and the Agricultural Marketing Service").

OSB has responsibilities for planning, coordinating, reviewing, approving and disseminating forecasts and short-term projections pertaining to the national and international economic outlook for the U.S. food and fiber system, but it does not have exclusive responsibility for these activities. Interagency Commodity Estimates Committees (operating as directed by Secretary's Memorandum No. 1769, Revised, September 16, 1974) prepare forecasts of production, utilization and U.S. exports. ERS has representatives on these committees, but ASCS representatives chair those concerned with "CCC price supported commodities..." ERS is said to have considerable influence on utilization of U.S. domestic and early season crop production estimates, while FAS is said to largely determine export estimates. There are also special "Task Forces" on estimates for the USSR and the PRC which are chaired by FAS, and (at least at times) coordinated

by an Assistant Secretary of USDA, whose estimates are not coordinated and released by OSB. FAS also publishes various commodity circulars that include forecasts, and are not released through OSB.

In 1975 and 1976 the Office of Technology Assessment (OTA), following a request from the Senate Committee on Agriculture and Forestry, sponsored studies and held hearings on agricultural information problems. In August 1976, OTA published a report on "Food Information Systems, Summary Analysis." This report recognizes that FAS and ERS have made a number of recent changes in their information collection and analysis systems, but concludes that substantial further changes are needed, many of them organizational. It says that analysis is "inadequate," "especially by the overseas network of agricultural attaches" and said that "USDA's fragmented organizational structure--hinders effectiveness and promotes institutional conflicts of interest."

The report includes few consensus recommendations of the OTA Food Advisory Committee on the problems, but quotes recommendations of various witnesses made during the hearings. These recommendations cover those problems listed above as "issues."

Senator Humphrey, a member of the Technology Assessment Board, sent advance copies of the OTA report to several USDA people, and indicated his interest in following up on some of the recommendations. On August 20, FAS Administrator Hume responded negatively to Senator Humphrey with regard to the report's proposals for reorganization. On September 22, Don Paarlberg wrote Hume about the response. Paarlberg expressed interest in further cooperation between ERS and FAS, but did not comment on the issues of reorganization.

Options

The OTA report (p. 5) developed "three options for Congressional consideration:

1. Reliance on existing agencies to initiate improvements.
2. Development of a single integrated world food information system;
and
3. Perfecting changes in existing systems.

The report concluded that "it seems more practical to make perfecting changes in the key existing systems (option 3) than to try to create a new system." OTA found that there were five major areas where specific opportunities for improvements might be considered:

1. Improving the accuracy and timeliness of U.S. food and agriculture information systems.
2. Strengthening the U.S. role in a world food information system.

3. Increasing congressional staff analytical capabilities.
4. Increasing the integration of nutrition information.
5. Accelerating the use of advanced technologies.

The report (p. 30) cites several suggestions generated by the study. Some of the ideas for improving the accuracy and timeliness of the U.S. food and agricultural information system would require organizational changes by USDA.

1. "The USDA should create an economic intelligence agency which will combine the commodity analysts from FAS and ERS into one unit. (Hjort, Hearings, p. 95).
2. "The Agricultural Stabilization and Conservation Service must no longer head the Interagency Commodity Estimates Committees, and the chairmanship of the ICECs ought to be transferred to the agency responsible for the operation of the U.S. agricultural information system (Hjort, Hearings, p. 95).
3. "The USDA should coordinate the information that its various agencies generate before the release of such information. (Sjerven, Hearings, pp. 138-139).
4. "A World Crop Reporting Board should be set up within USDA that would review all sources of country production information (attache reports, foreign-released statistics, etc.) from all Departments of the Government on a timely basis. The Board would set a forecast or estimate that would be acknowledged within Government (USDA, State, etc.) as the best number. (Harkness, Hearings, p. 134).
5. "USDA's Economic Research Service should assume full responsibility for world food intelligence now shared by three agencies within USDA. (Cochrane and Soth, Hearings, pp. 201-202).
6. "The ERS should have exclusive jurisdiction over the analysis and publication of outlook information. (Keefe, Hearings, p. 143).
7. "The U.S. Congress should study the desirability and feasibility of integrating the staff and activities of the Census of Agriculture with those of the Statistical Reporting Service of the Department of Agriculture, (Food Advisory Committee, Hearings, pp. 6, 21)."

Role of USDA and ERS

Most of these reorganization issues lie within the domain of USDA, although it is clear that many other groups are vitally interested, including the OTA Food Advisory Committee, various witnesses at the hearings, Congress, and the OTA staff. The question of LACIE's role and organization involves NASA and NOAA as well as USDA.

Research Available or Underway

Food Information Systems, Hearings before the Technology Assessment Board of the Office of Technology Assessment Congress of the United States, Ninety-Fourth Congress, September 24, 25 and December 10, 1975, February 1976, OTA-F-29.

Food Information Systems, Summary and Analysis, United States Congress, Office of Technology Assessment, August 1976, OTA-F-35.

"OTA Report Examines Ways to Correct Food Information Systems Deficiencies," Office of Technology Assessment News Release, September 2, 1976.

Interagency Commodity Estimates Committees, Secretary's Memorandum No. 1769, Revised, September 16, 1974.

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Foreign Market Development and Research

Issue

How rapidly, to what extent, and at what cost can the United States adjust to changed market conditions involving near-term surpluses and maintain its appropriate share of world grain markets and competitive position.

Background

The world is moving toward a substantial increase in grain stocks particularly for wheat in the near term. U.S. wheat and rice will be burdensome by summer. If 1977 grain crops are good, especially in major importing countries which often treat the United States as a residual supplier, the burdens will mount. This scenario could, however, change rapidly depending on weather conditions as indicated by the recent past.

Other changes are also likely in world agricultural markets. In the Middle East, which has some fast growing markets, OPEC countries are considering the possibility of making Sudan "the breadbasket of the Middle East." In Latin America, Brazil could continue to expand its share of the world soybean and soy meal market, having increased it from almost nothing to 25 percent in the last few years. Many developed country markets, while large, may not continue to grow rapidly. In contrast, developing country markets, appear likely to grow, in some cases quite rapidly. The centrally planned country markets have also been very important in recent years, but their future is uncertain. The future of the developing country and centrally planned country markets depends very much on their income distribution and growth, economic and agricultural development, and weather conditions.

The U.S. capability to meet the challenges of these market conditions will depend heavily on adequate information and research, and tailoring our foreign and domestic agricultural policies and market development programs to meet the needs of our markets. At the same time, U.S. agricultural exports may face stiff competition from other exporting countries whose export operations are centrally controlled.

Options

The United States may need to expand present export marketing programs to siphon off mounting surpluses. USDA may consider adjusting terms for existing credit programs to meet competition from other suppliers. Shifting program costs, such as removing the cargo differential price paid to P.L. 480 recipients for using U.S.-flag vessels, from the CCC budget would allow more of the CCC budget to be used for actual export sales of agricultural commodities. Also, shifting to a system of multiyear commitments for P.L. 480 sales instead of the current one-year programming may improve U.S. marketing prospects. Export subsidies could be needed on a standby basis in order to more effectively compete in world markets.

USDA may aid its marketing programs by devoting more resources to basic analyses of the advantages of these programs and suggested changes. A systematic analysis of the effect of credit availability on sales of U.S. agricultural products and a comparison of CCC terms with export credit terms of competing suppliers would be useful in assessing the merits of the proposal that the CCC expand the volume of credit offered for less than 12 months. Also, expansion of basic research may be desirable. For instance, it may be useful to explore the effects on supply and demand of commodity agreements, especially on major products exported by the United States, and the income and development effects on primary product exporting countries of stabilized export earnings and the effect of higher unit prices of commodities under international commodity agreements and that effect on agricultural imports.

Role of USDA and ERS

Market development is done largely in FAS and OGSM, while ERS provides direct support work for the programs and does basic research in many areas of market development. FAS has various programs, such as working with cooperators--agricultural export trade associations--to encourage market development. Agricultural attaches work within countries to develop markets for U.S. agricultural exports.

The OGSM administers the USDA's export sales programs, namely that of the CCC and the P.L. 480 food aid program. The CCC export sales program provides commercial credit at near market interest rates and maximum 3-year lengths for exports of available U.S. agricultural commodities. The P.L. 480 program is another tool of market development in that its extremely soft repayment terms generate demand for U.S. agricultural goods from developing countries. The most lenient terms give a grant element of almost 60 percent to the recipient countries.

ERS provides basic support for the export sales programs. FDIC/ERS provides short country analyses of agricultural situations and the financial positions of prospective credit recipients for both the CCC and the P.L. 480 programs. FDD/ERS also provides self-help recommendations required in P.L. 480 sales agreements. ERS also does longer-term research such as studies on the effects on import demand by foreign markets of overall economic growth rates, currency devaluations, debt and credit availability, international commodity agreements, aid to agriculture and rising energy costs. Results are released through working papers and special reports, seminars for analysts and in regular publications. ERS also uses the projections of GNP components and trade categories from "Project Link," a joining of 13 individual country econometric models through the trade sector.

FDIC/ERS is also involved in specific modeling projects such as the G.O.L.--grains, oilseeds, livestock--model for longer term projections, short-term trade forecasting, and a series of foreign country market studies to identify factors which will affect U.S. agricultural exports to foreign countries.

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International Organizations--Impact on Agricultural Trade and Aid

Issue

How to organize for dealing with policies and programs considered by and implemented through the international organizations.

Background

In 1976, international organizations to which the U.S. is a principal contributor committed some \$2.7 million to improve food and agricultural production in developing countries. In 1977, they may commit almost \$4.0 billion (this compares with the U.S. bilateral aid program for agriculture of some \$600 million). In the projects and programs they support, international organizations contribute about half of the funds and personnel involved; the balance comes from the developing countries themselves. Hence, these organizations have considerable impact on the amount and kind of investment for the agriculture of developing countries.

In addition, several international organizations provide forums and negotiating arenas for considering trade policies in agricultural commodities, particularly foodstuffs. While the U.S. has taken the position that binding negotiations on these issues only take place in the framework of GATT and the MTN, where trade-offs are worked out, the policy impact of other forums cannot be discounted. Similarly, international organizations provide a framework for consideration of aid levels and strategies, and these do exert an influence on U.S. aid policies.

The U.S. is involved in a series of international arenas, most of them within the UN system, in which there are persistent pressures by developing countries to win changes which will contribute to the realization of a new international economic order. Since food and agriculture are basic to the economies and lives of most people in the developing countries, these issues have been of utmost importance in the international organizations and USDA has been involved in formulating U.S. positions for these international forums.

Alternatives or Options

Issues on relationships with international organizations confront us in 1977. These have implications involving funding, external relations and staffing. They include:

(1) In dealing with FAO should we consider the organization as an agency of foreign agricultural development? A forum for policy debates on aid and trade? A technical body serving U.S. agricultural interests?

(2) In reviewing international bank and fund agricultural projects submitted for financing, should USDA limit its review to technical considerations or economic feasibility, including implications for U.S.

agriculture? Should we actively try to "sell" USDA personnel services for technical assistance and training in support of agricultural projects financed by the development banks and the new Fund?

(3) What should be USDA's role in respect to agricultural policies and programs considered by UN General Assembly?

(4) In Rome, the hub of international organizations concerned with food and agriculture, we have no representative concerned with these international bodies. Should USDA assign a liaison officer? What should be his relationship with USDA's agricultural attache and State's counselor for FAO affairs? How should the team in Rome and the officers in USDA, State and Aid coordinate efforts?

Role of USDA and ERS

In dealing with the international organizations, USDA shares responsibility with State and AID and with Treasury, as well as other agencies within the Government. As more attention and resources of the international organizations have focused on world food and agricultural problems, we have been called upon to play a more important role. And USDA has sought to respond to these requests on two levels: (1) helping provide technical assistance and training in support of international organization programs in developing countries, and (2) helping provide USDA participation in the deliberations of the international forums. Within ERS, FDD has been the locus for this work.

Many of the questions in the international forums are principally concerned with trade matters, i.e. GATT and UNCTAD. But it is increasingly evident that underlying issues of trade cannot be divorced from those of development and the aspiration of many developing countries for a new international economic order in which the terms of trade are improved for them.

USDA faces the question of how it will respond to requests of the Department of State, Treasury, and AID to help staff U.S. teams working out differences between the U.S. and developing countries as they come up on food and agriculture issues in the international organizations. For several of the international organizations such as FAO and the Inter-American Institute of Agricultural Sciences of the OAS, the State Department has delegated responsibility to USDA, and ERS has a principal departmental responsibility in developing U.S. policy and maintaining liaison with these organizations.

Since the World Food Conference of November 1974, several new international organizations have been established to deal specifically with world food problems; the World Food Council, a new billion dollar International Fund for Agricultural Development, and a new Consultative Group for Food Production and Investment. USDA has been a principal U.S. agency involved in their activities and ERS/FDD has served as the focal point.

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Technical Assistance and Training

Issue

Scope, rationale and contribution of USDA participation in international technical assistance and training activities.

Background

1. Scope of Involvement

For the past 15 years USDA has been involved in a many-faceted program of international agricultural development. Responsibility for directing the activity rests with the Assistant Secretary, Agricultural Economics.

With food and agriculture problems in many developing countries as the critical constraint to their general economic development, USDA's technical resources are being increasingly sought for our bilateral aid program, by the multilateral aid agencies, and by governments such as Saudi Arabia and Iran, which are able to pay for technical assistance. Most of this work has been done on a reimbursable basis, primarily under agreements with AID.

USDA involvement in efforts to improve the food and agriculture situation in developing countries through technical assistance and training includes the following:

a. Technical Assistance.--USDA has made available the technical skills of its scientists, economists, marketing specialists, irrigation engineers, and others on short-term and resident assignments in scores of developing countries. Some 300 USDA personnel are involved in overseas assignments each year. Reimbursement is made by AID, international aid organizations, and, increasingly, by several countries with amply reserves.

b. Training of Foreign Agriculturists.--USDA arranges ad hoc and academic programs and conducts courses in the United States and in many developing countries for almost 2,000 foreign agriculturists annually. Many participants are sponsored by AID, FAO, or their own governments and USDA is fully reimbursed for the work.

c. Cooperative Involvement with Land Grant Universities.--An extension of USDA's natural alliance with the land grant institutions is our joint involvement in development assistance. The formation of the International Science and Education Council by National Association of State Universities and Land Grant Colleges (NASULGC) and USDA is an expression of this mutual involvement. Recent passage of Title XII, Foreign Assistance Act, is an effort by AID and the Congress to enlist the university community to a greater degree in U.S. Government development assistance programs.

Authorization

Our involvement in these programs is largely authorized by the Foreign Assistance Act and P.L. 480. The former directs the foreign assistance agency, when drawing upon expertise to carry out its program objectives, to go to those Departments with the specific expertise rather than to build a staff. This legislative directive led to an interagency agreement underwriting the USDA's long-standing activity in Government-financed assistance programs.

Initially this arrangement was couched in terms of joint partnership, equally concerned with planning, executing, and evaluating the agricultural portion of the foreign assistance program with which we have special competence. However, because AID has been expected to underwrite the total costs of the services provided, we are more of a junior partner.

The Foreign Assistance Act also includes authority (Section 607) for agencies to provide assistance to friendly developing countries on a reimbursable basis. With Congressional limits on the number of countries eligible for bilateral assistance, the number of "graduate countries" has grown, and the Joint Economic Commission agreements have introduced still another non-AID source of requests for assistance. But our ability to meet these requests is limited by current requirements that total Departmental expenses be recovered. Except for a few OPEC countries, U.S. policy of responding to non-AID requests is being frustrated by our inability to provide requesting countries some modicum of preliminary project planning and development assistance, in contrast to the involvement underwritten by most other governments interested in providing assistance as a national policy.

Organization

Responsibility for policies and programs relating to international development, technical assistance, and training is delegated to the Assistant Secretary, Agricultural Economics. Recognizing that international activities are carried out by and may affect program considerations of all agencies, the Secretary established and designated the Assistant Secretary, Agricultural Economics, as Chairman of the International Agricultural Development Committee (IADC) which includes heads of agencies active in international programs. The committee's purpose is to consider and make recommendations concerning the utilization of Departmental competence and resources in support of U.S. foreign economic and technical assistance efforts. In practice, it has limited its considerations to undertaking technical assistance and training programs, ignoring the commitment of other Departmental resources (P.L. 480) and the need to coordinate other programs with those specifically directed toward development assistance.

Options

Although present arrangements which govern USDA's involvement in international agricultural development have been working fairly well, the changed world situation in agriculture and in U.S. relations with developing countries requires a reexamination of objectives and how the Department is organized to carry them out. Three broad policy and organizational options may be cited, with variations possible for each alternative.

1. Maintain existing arrangements and continue limited and responsive role.

This means focusing only on technical assistance and training requests and limited undertakings to those for which we are fully reimbursed.

2. Maintain existing arrangement--but strengthen coordination within USDA.

The Department would give its development role greater emphasis. USDA would continue to respond to requests in a technical capacity, largely on a reimbursable basis, and ERS's Foreign Development Division would continue to provide leadership. However, we would attempt to improve Departmental coordination in respect to development affairs. The IADC would consider all Departmental programs affecting and being affected by programs in developing countries.

3. Seek authority and funding to provide for more independent USDA action through an allocation of some USDA-appropriated funds.

Because of our dependence on AID financing, we are the junior partner despite our serving as the major source of agricultural expertise. This option would be designed to restore full partnership between AID and USDA in respect to technical development considerations.

The budgetary impact of exercising this option would be small when weighed against a more effective USDA role in international agricultural development and improved coordination of overall U.S. efforts in this area--so important to U.S. foreign and domestic economic well-being. This option would require Congressional recognition and acceptance of this mission.

Role of ERS

ERS, and its Foreign Development Division have been delegated the responsibility for administering and coordinating the Department's technical assistance and training work as carried out in the field of international development at the request of AID and international organizations.

Contact

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IV. RESOURCE AND DEVELOPMENT ISSUES

Maintaining and Improving Water Quality

Issue

What are the economic impacts on agriculture and rural areas of alternative environmental goals, regulations and practices to improve water quality.

Background

The Federal Water Pollution Control Act Amendments (P.L. 92-500) provide authority to implement regulations and plans to improve water quality. Highly relevant sections of this act include Sections 208 and 209 (area and basinwide planning), Section 303 and 305 (identifying and controlling nonpoint sources of pollution), Section 404 (dredge and fill), Section 304j (authorization of \$100,000,000 to USDA, Army, and Interior for 208 plan implementation) and Section 402 (permits for discharge of pollutants).

There are several policy alternatives including standards, regulations, cost sharing, taxing, and changing production practices for improving water quality. These alternatives will have varying impacts upon the viability of agricultural production and rural economies. If rational decisions are to be made, consistent with maintaining productive capacity of U.S. agriculture, the economic aspects of alternative options to implement the provisions of P.L. 92-500 must be evaluated.

Options

The alternatives or options available to ERS include: (1) continue to seek additional money from EPA for research related to the economics of water quality, in particular nonpoint source pollution, economic incentives and section 208 activities; (2) develop an integrated research effort within USDA, in particular with SCS, FS, and ARS, to look at the impacts on agricultural and rural areas of alternative environmental goals, regulations and practices to improve or maintain water quality; (3) increase the water quality research within ERS (based on additional EPA, USDA, or SCS funding) by expanding river basin planning assistance and small watershed, nonpoint and institutional research to include the integration of land and water (both quantity and quality) use planning, evaluation, implementation, and the economic analysis of "Best Management Practices" as required for P.L. 92-500 to eliminate the discharge of pollutants. This expanded role would involve a regional approach to water quality problems, and stress the impacts on agricultural land use, production and income of environmental quality management strategies.

Role of ERS

ERS does research and provides planning assistance for improving water quality in rural areas. The research program focuses on evaluating the cost effectiveness and impacts of alternative policies and programs to abate pollution. Evaluations are made of the effects of alternative sediment, plant nutrient, salinity and pesticide pollution abatement policies on farm costs, prices, and competitive advantage among producing regions. The alternative policies and programs evaluated include pollution regulations, best management practices, economic incentives, and various taxing, and pricing alternatives.

The planning assistance program is river basin and small watershed oriented. The program develops systematic approaches to land and water planning, evaluation and planning implementation. Information and analysis include appraisals of trends in water and land use, projections of agricultural production, employment, income and rural population; and analyses of water management and water needs. Additionally the impacts of erosion and sedimentation, land drainage, irrigation, flood prevention and other water development programs are analyzed as they relate to agriculture and other sectors of the economy.

Contact

Harold Stults, NRED, ERS (447-8748)

Water and Related Land Resource Planning

Issue

The principles and standards for water and related land resource planning are to be revised. Resource planning assistance is a major ERS activity directly affected by the principles and standards. As a participating agency in the Department's planning activities based without development programs of its own, ERS could play a unique role in the revision process.

Background

In 1973 the Water Resources Council (WRC) implemented Principles and Standards for Planning Water and Related Land Resources. They apply to Federal agencies involved in planning and development of water resources.

The multiobjective approach was approved and two objectives established as the basis for planning--national economic development (NED) and environmental quality (EQ). Guidelines for implementing the Principles and Standards were not issued by the WRC. Each agency is to develop its own guidelines.

Evaluation problems still have not been resolved. No consistent methods have been developed for estimating national benefits of resource development. The relationship between project output of agricultural products and national demands is especially troublesome. The major problem in the EQ account is the measurement of environmental benefits and costs in a meaningful way.

Role of ERS

ERS participates in cooperative USDA planning studies and in other planning and evaluation activities that use the Principles and Standards. We are responsible for the agricultural portion of the WRC OBERS projections. These projections play a major role in identifying long-range national demands for agricultural products. ERS has been involved in developing analytic methods and procedures that are used to evaluate the impacts of resource developments and we have research underway aimed at improved procedures for environmental benefits and costs. The experience of ERS in planning and evaluation, the general high level of training and the objectivity resulting from absence of resource development programs in the agency should qualify ERS for playing a major role in any effort to revise or expand the Principles and Standards.

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Land Use Programs

Issue

Should the Department support land use legislation? Related to this issue, what role should the Assistant Secretary for Agricultural Economics pursue on land use issues?

Background

Our judgment is that a land use bill will be resubmitted early in this session of Congress. It will likely originate in the Senate Agriculture and Forestry Committee rather than the Interior and Insular Affairs Committee as it did last year. In turn, USDA would have a lead role in implementing its provisions.

The legislation will likely:

- * encourage States to initiate and upgrade their land use planning and implementation,
- * provide funds to States to carry out planning functions,
- * suggest guidelines and criteria for land use decisions, including considerations of prime agricultural lands,
- * require Federal agencies to develop a data and information system to support State land use planning programs.

Options

Those favoring an active role of the Department feel that USDA must:

1. Be concerned about the availability of land and water resources for needed crop, livestock, and timber production here and internationally.
2. Support planning efforts at the State level to insure that agricultural and rural land use decisions contribute effectively to growth and development goals of these regions.

Those opposed say that land use matters:

1. Are primarily a responsibility of the State; Federal agencies should not play an active role.
2. Relate mostly to environmental and urban matters, and so USDA should not seek a leadership role.

Role of ERS and USDA

Historically, land use has been a major responsibility of the Assistant Secretary for Conservation, Research and Education. The Assistant Secretary for Agricultural Economics was involved only on a limited basis and only occasionally when there was an issue of overriding USDA concern, a need to identify major amounts of resources for a task, or substantial conflict among agencies. The Assistant Secretary for Agricultural Economics could take an active role in land use policy and program matters.

Specific Departmental land use policies and programs have important economic implications.

Many Departmental commodity programs with which the Assistant Secretary for Agricultural Economics has regularly dealt have significant implications for the use and availability of land in rural areas.

A more active role by the Assistant Secretary could involve the sharing of leadership, such as being co-chairman of the Department's Land Use Committee which sets policy and coordinates programs consistent with the legislation. This Committee has been chaired by the Assistant Secretary for Conservation, Research and Education.

ERS has a primary role in providing staff assistance to the Secretary's Office on matters relating to land use, namely, information on the economic supply and demand for rural lands with concern about the adequacy of our land and water resources for food and fiber production and community effects. Such assistance is based on on-going research programs and is important to land use policy and planning decisions.

In addition, ERS could provide assistance to State governments in their land use planning processes. Such assistance would be similar to existing ERS work in supporting river basin planning conducted by Federal and State agencies. ERS involvement at the State level could provide a national and regional perspective for the planners and the decisionmakers. ERS studies help identify agricultural land and water needs and the social and economic impacts of alternative program and plans. The ERS capability could be a part of a USDA data and information system to aid State land use planning efforts. Alternatively, ERS could relate only in a staff capacity role utilizing research information to aid policy formulation at the national level.

Contact

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Proposed Land and Water Conservation Act

Issue

Proposed Land and Water Resource Conservation Act and the related evaluation of the USDA Land and Water Conservation Programs requested by the Senate Agricultural and Forestry Committee.

Background

An Act, passed in 1976 but vetoed, would have authorized SCS to conduct detailed resource appraisals, analysis and evaluations which were intended to "establish the framework for achieving National land and water policy" and "sets forth the director of future soil and water conservation efforts." A similar bill is likely to be introduced in 1977.

Senator Talmadge's Agricultural Committee has requested a comprehensive evaluation of all USDA land and water conservation programs. The goal of the evaluation is to determine the value of these programs with respect to be quality, quantity and productivity of the natural resource base. The objectives of the evaluations are:

1. To assess the extent to which program and legislature purposes are being met;
2. To assess the impact of the programs within the broad context of national conservation policy and needs;
3. To determine whether the programs are being administered efficiently; and
4. To determine whether the program purposes and mechanism valid in the context current and projected conservation needs.

Role of ERS

ERS is not mentioned as a participating agency in the Act. Yet ERS is currently involved in many activities identified in the Act. For example, ERS is developing an improved capability to analyze and evaluate water and land productivity, and policy impacts through its river basin planning assistance, OBERS, and national assessment programs. If, as expected, this or a similar Act is proposed in 1977, ERS capabilities should be utilized. Considerations should be given to including ERS as a direct participant.

USDA will carry out the evaluations as requested by the committee. A task force with representatives from each agency and a work group have been formed. ERS-NRED is a member of the task force and work group. A detailed two year plan of work with a continual larger run effort is being developed. ERS has a significant role at the national and regional level in determining the demand for land and water conservation services as

derived from agricultural production needs and environmental quality enhancement and maintenance. The on-farm value of conservation practice's could be analyzed by ERS.

Contact

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Resource Capacity

Issue

Adequacy of the resource base to meet domestic and foreign food needs.

Background

This recurring issue centers around fears that our agricultural land base is being lost to non-agricultural uses at the same time average yield levels are stabilizing or even declining. The debate has concentrated on the adequacy of resources under varying sets of population and demand assumptions. A neglected area, and one which will gain increasing attention, is what can government do about anticipated capacity problems? There are a number of available instruments including: direct investment in resource development, restrictions on land conversion, tax law reform, and yield research. Each of these could be used to treat the capacity issue. Each has offsetting environmental, social and economic costs.

Options

The present ERS research program lacks the comprehensiveness implied by the issue. The options therefore, are clear: (1) to continue as before; or (2) to address the issue directly with a coordinated research program involving institutions, projections, and planning activities.

Role of ERS

ERS is responsible for maintaining the capability to comprehensively analyze issues as they emerge. An important part of this process is the recognition of existing gaps in the agency's current research program.

Research Underway

Projects in resource ownership and in land use planning and policy are addressing some of these issues. A unique feature of the projects is the employment of legal researchers working with economists in analyzing institutional factors affecting land availability and resource adequacy. A substantial ERS river basin planning activity deals on a daily basis with public investment in resource development. This activity is of an interagency and inter-departmental nature.

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Credit for Rural America

Issue

Through the Rural Development Act of 1972 and other policy instruments, the Government has adopted a policy of encouraging the development of nonfarm activities in rural areas. This, coupled with rising environmental concerns and desires for better government services, has increased the needs for capital funds to support pollution abatement facilities, schools, and other major community facilities. Development also means new and improved housing, and adequate credit is basic to housing improvements. In addition, farm production is becoming increasingly specialized and farmers buy more of their inputs from nonfarm sources. Land values have increased rapidly and this land must be combined with larger amounts of capital for irrigation, land clearing, drainage and other similar investments. These and other factors have raised concerns over the adequacy of credit for rural America.

Background

Throughout this century agricultural credit has been a primary concern of Congress and USDA.

The Federal land banks were established in 1916, the Intermediate Credit Bank and the Farm Security Administration in the 1930's and the Farmers Home Administration in the 1940's.

The Farm Credit Act of 1971 substantially altered the lending authority of the Farm Credit System and in 1976 the Small Business Administration was authorized to make loans to farmers.

Farming has thus received substantial assistance from the government in securing access to loan funds under favorable credit terms. This increased ease of securing credit has facilitated the adoption of major technological changes and in large part has been responsible for the rapid gains in the productivity of agriculture. However, it has also increased competition among operators for the available resources and has, in some part, contributed to inflation in real estate values.

Although farm production has received considerable help it was not until the 1960's that nonfarm rural America became an area of concern and programs were developed that began to deal with the problems of rural communities and nonfarm people.

FmHA's housing program is the largest program of that agency and the rapid growth of the program has demonstrated the critical shortage of conventional funding for housing in rural areas.

Community facility loans also account for a growing share of FmHA program activity as rural areas respond to the call for infusion of capital into the rural infrastructure.

Major questions are now being asked concerning the role of government and private agencies in providing funding for agriculture and rural development activities.

A rural development bank has been proposed, young farmers have received special attention, the need for low interest loans has been questioned, and emerging loan programs have been developed.

Options

USDA has three basic options available with respect to rural credit. First, it can modify its regulations in such a way that they encourage or reduce its participation in rural credit and development activities. For example, by relaxing eligibility requirements more people could be served under ongoing programs.

Second, it can seek new or amended legislation that would enhance or limit its authority to lend. If, for example, a determination was made that current loan ceilings to an individual are too low, the Department through OMB could request that the loan limits be increased by Congress.

Third, the agency can actively seek to influence lending practices of private and other government lenders so as to encourage or limit their lending in rural areas. By a memorandum of agreement, FmHA and Small Business Administration (SBA) have agreed to cooperate and service loans so that they are complementary in their efforts rather than competitive. In general, SBA will refer smaller loans to FmHA, and FmHA will refer loan requests which are out of scope to SBA.

Role of USDA

Through FmHA, USDA serves as lender of last resort for farm purchase and operating loans. The agency provides emergency loans to livestock operators, disaster assistance loans and loans for conservation and irrigation. In addition, the agency serves as a major source of funding of rural development community facilities projects through its water and waste facilities loans and grants program. And, the agency provides direct and guaranteed loans for farm and nonfarm housing.

The Secretary is also authorized to carry out or contract for research on the need for and use of credit in rural areas.

Research Available or Underway

ERS maintains information on the current situation and outlook on agricultural lending including lending by FmHA and other major agricultural lenders. Also, ERS maintains an econometric model of the financial flows in the agricultural sector and is building a long-term projections model of such flows.

Research is also being conducted on rural housing and housing credit. However, limited information is available on other credit needs in rural areas.

ERS is proposing that credit research be expanded and will be requesting an addition of \$300,000 and 4 scientist years as a budget item for FY 1978. Research under this item will include improvement of the data system and additional policy research.

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Realignment, Restructuring and Financing of The Transportation System

Issue

Several acts of Congress in recent years have set in motion a series of transportation activities including realignments of highway systems, restructuring of bankrupt railroads, rehabilitation of railroad lines having a potential for financial viability, definition and application of safety standards on highways and railroads, and inventorying of the needs for reconstruction and/or replacement of outmoded highway bridges, waterway locks and dams, air and water navigational aids and controls, and other facilities and services essential to the efficient functioning of the transportation system.

These actions have resulted in substantial questions being raised about the efficiency of upgrading to meet safety standards through subsidy to both rail and highway segments having low traffic densities, and about the extent and quality of roads and railroads necessary to meet transportation needs. They have also resulted in questions about the equity of subsidizing and regulating some modes of transport more than others.

Resolution of these questions will be on the national agenda over the next several years. The various forms in which the issues may appear include: Subsidies to maintain essential but financially ailing branch line rail services; actions to insure nondeterioration of rural highways; classifications of railroad lines for infusion of Federal funds in rehabilitation and upgrading; decisions on Federal funding of new and replacement waterway infrastructure; equity for other modes of transport; peak load pricing for agricultural shippers in seasons of heavier-than-normal movements; and regulation and the agricultural exemption in trucking.

Background

When much of the railroad system of the United States was built, rural roads were unimproved and the motor vehicle was not invented. Thus, railroad lines were constructed to provide efficient access into many small rural trading centers. In succeeding decades, improved roads and motor vehicles resulted in consolidation and concentration of centers of farm trading activities, thereby reducing volumes of traffic for the more remote rail lines. States assumed control over rail abandonment decisions until 1920 when Congress transferred authority to the Interstate Commerce Commission. Although this was expected to speed the process of retrenchment of rail lines as roads and trucks expanded their reach, numerous studies suggest that the process was slower than overall efficiency considerations justified. The Regional Rail Reorganization Act of 1973 placed decision on what rail lines of bankrupt railroads in the Midwest-Northeast region to include in a reorganized system on the United States Railway Association, with provision for subsidization of excluded lines considered essential by the States, and the 4-R Act of 1976 directs ICC to decide abandonments on financial viability criteria rather than the previous public convenience and necessity criteria.

Further, the 4-R Act authorizes both subsidies for "essential" lines and rehabilitation and upgrading loans for use on financially viable rail lines. The Act also increased the flexibility of rail ratemaking.

The Corps of Engineers of the U.S. Army has invested nearly \$10 billion in construction, operation and maintenance of inland waterway facilities for navigation. In 1975, more than 25 million tons of agricultural commodities moved over these waterways, and some other bulk and liquid products also moved in large volumes. Waterway carriers and shippers have not been required to reimburse Federal treasury costs. Railroads, in particular, have protested such practice, but were not successful in stalling authorized projects until recently. Replacement of existing Locks and Dam 26 at Alton, Illinois, was stopped by a court decree requiring the Corps to get specific authorization from Congress before proceeding. Further construction on the Tennessee-Tombigbee Rivers system is being protested in court. Bills were introduced in the 94th Congress to impose charges on users of the waterways, and it is likely that the 95th Congress will also initiate bills and/or hearings.

From 1950 to 1975, the Federal-Aid Highway System grew rapidly. Inventories of needs for improvement on Federal-Aid highways suggest difficulties in future funding, and that roads in urban areas are deteriorating even though traffic densities are still increasing. In 1973, Congress authorized realignments of the Federal-Aid Primary and Secondary Rural Highway Systems, and designation of the Federal Urban System authorized in 1970. All three systems are now eligible for funds from the Federal Highway Trust Fund. The secondary rural system was to be limited to rural major collector roads connected with other major collector and primary roads so as to constitute an integrated system. In all, the rural secondary system is expected to have only 63 percent as many miles as it encompassed under previous definitions. Decisions on construction, reconstruction and maintenance for roads removed from the Federal-Aid System are now the responsibility of State and local governments, and many persons fear that this means deterioration of these roads. A part of this concern arises because of the age and condition of the many bridges on rural roads.

Options

The Secretary of Agriculture has no direct legislated responsibilities for transportation policy and financing, except those mentioned above. There are, however, opportunities for him to influence the direction taken, and other opportunities will arise if the Secretary has strong views about the adequacy, efficiency and/or equity of rural transportation and trends in national policies with regard to transportation.

One alternative is to make the views and transportation competency of USDA and State agricultural experiment stations known to various transportation policymakers, e.g., the Secretary of Transportation, the National Transportation Policy Study Commission, and various Committees of the Congress having responsibilities for transportation legislation. This alternative would emphasize the roles of the research and extension agencies, Agricultural Marketing Service, Rural Development Service, and Forest Service in

transportation, and might even include funding of some transportation projects through the authorizations of the Rural Development Act.

A second alternative is to expand USDA's research and extension efforts in transportation as a means of informing policymakers and the public about efficiency and equity aspects of transportation in rural areas.

A third alternative is to fulfill statutory responsibilities and to allow research and extension agencies of the Department to fund transportation activities within their normal priorities.

Role of USDA and ERS

The Secretary of Agriculture has a statutory responsibility under the Agricultural Marketing Act of 1938 to assist in improving transportation services and facilities and in obtaining equitable and reasonable rates and services for agricultural products and farm supplies. The Secretary also has statutory responsibilities under the Rural Development Act of 1972 to coordinate with other Federal agencies on matters affecting rural development, including transportation. The Secretary is required directly to provide highways in National Forests.

ERS analyzes developments in transportation that may impact agriculture and rural areas as a part of its research and economic intelligence functions, and as directed undertakes analyses of various policies proposed for adjusting transportation facilities, services and financing. ERS also is developing long-run projections of requirements for transportation services by agriculture, and some in-depth analysis of means for making transportation more efficient.

Research Available or Underway

ERS has identified a significant decline in real spending on rural roads since 1970; some impacts to be expected from rail line abandonment and waterway user charges; the economic and institutional factors involved in rail freight car supply for agriculture; and the generally satisfactory economic performance of motor carriers operating under the agricultural exemption in interstate trucking. ERS has done limited analysis of mobility in rural areas, the economics of rural ambulance and fire services, and freight rate relationships and trends. It has recently co-sponsored with the Department of Transportation and others a national symposium on transportation for agriculture and rural America that exposed broad areas of research and program activities to public view.

ARS has analyzed means for more efficiently distributing food in urban areas and for delivering better quality food to consumers.

FCS has analyzed grain exporting operations of farmer cooperatives and various transportation options available to cooperatives.

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Rural Passenger Transportation

Issue

Rural people are almost totally dependent on the private automobile for commuting to work and/or gaining access to essential goods and services. Moreover, because of the low population density and dispersed settlements, they travel much greater distances than their urban counterparts. How can transportation alternatives to the private automobile be provided in rural areas? What impact will increased petroleum costs have on rural people and on the vitality of rural communities? Who are the transportation-disadvantaged in rural areas, and what transportation services are necessary to provide them with an adequate quality of life?

Background

Passenger transportation has been a key element in rural development. Increased mobility has provided a basis for cooperation among rural areas and between them and metropolitan cities. As a consequence, residents of rural communities have gained access to a wide range of goods, services, and opportunities not previously available in such areas. This has reduced the constraints on living in rural areas, and made them more attractive to large segments of the American population.

However, another outcome has been the increased need for rural residents to travel long distances to seek employment and/or to procure goods and services. Paradoxically, the need for increased travel has occurred simultaneously with the reduction of alternatives to the private automobile. Today, fewer than 1 percent of rural residents who work outside of the home use public transportation to get to their job. In contrast, 12 percent of urban workers use public transportation. This lack of transportation alternatives is a severe disadvantage to those who because of low income, mental or physical disability, or age cannot drive an auto. Moreover, it has been estimated that as many as 20 million rural people lack access to transportation because their family car is used for commuting to work by the principal wage earner, leaving other family members with no means of mobility. Hence, this transportation-disadvantaged population is, by and large, denied ready access to many essential services and activities.

The need for passenger transportation systems in rural areas has been recognized in several public programs. The National Mass Transportation Act of 1974 authorized \$500 million for a non-urbanized area capital assistance program. Under that Act, urban grantees have great flexibility in determining both the capital and operating requirements of their system, and may utilize part of the grant for non-capital expenditures. S.662 and Hr.3155 sought to amend the Act to authorize non-urban grantees the same option. Although S.662 was enacted by the Senate, Hr.3155 died in the rush for adjournment. In addition, over 100 rural transportation projects have been selected for funding under Section 147 of the Federal Highway Act of 1973 (The Rural Demonstration Program). Demonstration projects have also been supported by the Community Services Administration (which assumed OEO responsibilities for

administering Community Action Agency programs), the Administration on Aging, and other public and private organizations.

Options

The Department should determine, in light of available resources, whether or not to initiate research activity in this area.

Role of ERS and USDA

In his 1975 Statement on National Transportation Policy the Secretary of Transportation, proposed that, "A rural transportation policy should be coordinated with other Federal efforts in rural development as part of a broader national policy on rural and urban growth." USDA should participate in this effort through the Under Secretary for Rural Development, and research to support this effort should be undertaken by the Economic Research Service.

Research

ERS has done virtually no research on passenger transportation in rural America. In 1976, only one paper was published on the subject. However, ERS does have an ongoing program of research which focuses on the transportation requirements of our agricultural industry.

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Expanded Energy Development

Issue

National energy policy stresses increasing reliance upon electricity (and possibly synthetic gas) generated from coal to help supplant the use of petroleum products and natural gas. The opening of new coal mines, an increased tempo of coal mining, the construction of new coal-fired steam electric plants or other coal-related facilities may have major environmental, economic, and social effects. What might these effects be, and where might they occur? What would be the possible impacts on agriculture, forestry, natural resources, and rural communities?

Background

These issues have become especially urgent since the OPEC oil export embargo of 1973. In 1974, OMB set up interdepartmental task forces to formulate programs to identify environmentally, socially and economically acceptable energy development alternatives, by the integration of many kinds of research results (integrated assessment). The "King-Muir" task force recognized that within the Federal Government, expertise needed to make integrated assessments was spread over many agencies. The task force recommended added funding for integrated assessment to be provided to EPA, or passed through the EPA budget to other departments and agencies. Congress subsequently appropriated these added funds.

Alternatives or Options Available

- Current, or "EPA approach"
- "RECLAM approach"
- "ARPAC approach"
- Combinations

Work in ERS on integrated assessment does seem essential. But is this research a sub-task of a larger problem? Which problem? How should the work be funded? How managed and controlled? In the future, should it become tied even more closely to the reclamation aspect? If the RECLAM program succeeds in obtaining USDA appropriated funds for reclamation-related work, there would be opportunities for ERS to get additional support for our coal-related work since we have participated in the formation of RECLAM.

However, the RECLAM approach would place ERS still more in support of the lead role of the Assistant Secretary for Conservation, Research and Education. ERS would undoubtedly follow SCS, FS, ARS and CSRS if the spotlight is on reclamation. At present, OEQA facilitates and coordinates our relationships with EPA, but we basically manage our own working contacts with EPA, subject to budgetary constraints.

Another approach would be to seek to expand ERS energy-related research (including coal impact work) along the lines suggested by the report to the Agricultural Research Policy Advisory Committee (ARPAC), A National Program of Agricultural Energy Research and Development (Sept. 1976). The National Program identified "consequences and impacts of energy development" as one of the major categories of energy research. Therefore, in this other view, our current coal impact research (mentioned below) plus other energy research in ERS should become the nucleus of a much larger agricultural energy R and D program, managed in USDA.

By contrast, in the current arrangement, our integrated assessment of coal development remains principally the offspring of the EPA-led interagency program. From still another viewpoint, as mentioned, ERS coal-related research could hook more into a USDA RECLAM effort. Perhaps all three viewpoints are valid, but only the ARPAC or RECLAM approaches seem to lead to funds being appropriated directly to ERS. The ERS Energy Board has addressed some options in detail.

Role of USDA and ERS

ERS and USDA representatives participated on these task forces. In early 1975, a research agreement was concluded between EPA and ERS for ERS to perform an integrated assessment of economic and environmental impacts of expanded coal development, including costs of mined-land reclamation. This was based on ERS experience in research on natural and human resources, environmental quality and rural communities in the Natural Resource Economics Division (NRED) and Economic Development Division (EDD). Other USDA agencies--Soil Conservation Service, Agricultural Research Service, Forest Service, and Cooperative State Research Service--also have ongoing programs and expertise related to coal development issues, principally mined-land reclamation. Plant research and soil surveys are examples. Moreover, the Forest Service (FS) has custody of some lands containing Federally-owned coal. These and other FS lands would be affected by mining. These agencies receive pass-through funds from EPA for reclamation-related work.

All USDA relationships with EPA concerning coal development (integrated assessment and reclamation) are coordinated through USDA's Office of Environmental Quality Activities (OEQA) in the Office of the Assistant Secretary for Conservation, Research, and Education. In addition, under the Assistant Secretary's direction, OEQA is putting together a departmental "program for Lands Affected by Mining (RECLAM)," composed of and superimposed on all the individual agency programs which relate to coal, as mentioned above.

Research Underway

NRED and EDD are cooperating on a research project "Integrated Assessment: Social and Economic Consequences of Coal and Oil Shale Development." It is being performed principally with EPA pass-through funds.

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Waste Management Utilization, and Disposal

Issue

The role of land in the utilization and disposal of wastes from urban sources to meet increasingly stringent environmental regulations.

Background

Increasing demands are being placed upon the land resources of the nation to serve as a medium for the recycling and disposal of growing waste streams (municipal effluents, sludges, and solid wastes) from communities across the country. Laws and regulations, especially Public Law 92-500, establish water quality goals and explicitly direct communities to evaluate land application of wastes as a treatment alternative. Laws also require communities to improve their solid waste handling practices.

P.L. 92-500 focuses on water quality and the resultant alternatives for effluent and sludge management. Communities are being required to treat wastewater to higher levels, which in turn results in more sludge. Conventional approaches to sludge management (incineration, ocean dumping, and landfills) are becoming less feasible in many cases because of high energy costs, prohibition of ocean dumping, and capacity problems at landfill sites. Thus, communities are giving increased attention to the use of land as a place to use or dispose of the increasing volumes of wastes.

Effluents and sludges have been applied to land successfully. Numerous examples exist where crop yields have increased due to the nutrients, water, and organic matter added through land applications. Reclamation of mined areas has also used sludge successfully as a source of necessary organic matter. However, land application is not always compatible with agricultural production due to the quality of the sludge or effluent; (e.g., level of heavy metal content, pathogens, or viruses), application rates, climatic factors, and type of application.

Considerable research is underway to develop and analyze sludge and effluent management practices utilizing land.

Role of ERS

ERS conducts a program of economic analysis of waste management in the areas of effluent management, sludge management, solid waste management, and agricultural processing waste management. These analyses are primarily on issues of technology assessment, simulation analysis, cost analysis, impact analysis, and legal/institutional analysis. ERS researchers work closely with EPA, land grant universities, water resource institutes, and ARS. Clients of this program are: the agricultural community, community leaders, planners--consultants, and other researchers.

Research Underway

- Analysis of sludge composting technology in cooperation with ARS at Beltsville, Md.
- Market development for composted sludge, in cooperation with ARS.
- Cost analysis of land application of effluents and implications, in conjunction with the Pennsylvania State University.
- Evaluation of community experiences with land application systems, in cooperation with EPA.
- Investigation of legal implications of land application of effluents, in cooperation with EPA and the University of Wisconsin.
- Evaluation of the Impact of water quality regulations on the dairy processing industry, in conjunction with the University of Minnesota.
- Analysis of solid waste management practices in rural communities in the Southeastern United States, in conjunction with the University of Georgia.
- Analysis of attitudes toward the location of sanitary landfills.
- Evaluation of the impact of sewer surcharge regulations on decision making by community planners and industry, in conjunction with the University of North Carolina.

Contact

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Rural Housing

Issue

USDA (FmHA) is responsible for administering a \$2.7 billion program specifically to improve housing conditions in rural America.

Although vast improvements have been made in recent decades, over 3.7 million households still live in substandard housing. It is still more prevalent in rural than in urban America, accounting for 10 percent of rural households and 4 percent of urban households. It is prominent in the South and particularly acute among black, elderly and single-person households, notably those with low-incomes.

Background

FmHA has long been assigned primary responsibility for administering housing programs in rural America. In 1949, FmHA initiated its first housing program, to assist farm families in acquiring improved housing. Since that time, FmHA assistance has been extended to non-farm housing, and the geographic areas served have been expanded to include many places of up to 20,000 population as well as towns of 10,000 or less and to open country areas. Loan assistance has been directed at low and moderate income households who have not been able to obtain adequate credit elsewhere but whose expected income is sufficient to offer reasonable prospects for loan repayment. Very low income households--those most often in need of improved housing--commonly could not qualify for a loan.

In 1969, an interest subsidy program was initiated to extend Federal credit assistance to lower income households. At present, approximately 60 percent of all FmHA housing loans incorporate an interest subsidy.

Legislation in 1974 authorized FmHA to make loans for mobile homes as well as more conventional housing in an effort to provide low-cost housing to needy rural families. This program has not yet begun. Legislation also directed FmHA to guarantee certain loans made by private lenders as well as to continue its insured loan programs. The extent to which this program will affect active participation by local lenders in FmHA's programs is not yet determined.

Options

Congressional action relative to continuance of the interest subsidy program can be expected. Policy decisions will weigh the effectiveness of this approach to extending housing credit assistance to lower-income families against the long-term Federal obligations that accumulate with continuance of such a program. Even with interest subsidies, however, many hard-core low-income households will not qualify for loan assistance.

Pressures to implement the authorized program for mobile home loans can also be expected. Mobile homes can provide acceptable low-cost housing for many rural household, but implementation of this and other programs without commensurate measures in personnel will result in less effective administration of FmHA's programs.

Role of USDA and ERS

FmHA administers major Federal programs to supplement the housing credit activities of private lenders in rural America. ERS conducts research to provide information for use in making policy decisions relative to Federal efforts to improve rural housing conditions.

Research Available or Underway

ERS provides policymakers with current information on the status of rural housing. Analysis of decennial and annual census information provides basic information on rural housing conditions--the magnitude of the housing problem, who lives in substandard housing, where it is located, and socioeconomic factors related to or contributing to poor housing. Research is also being conducted on the availability and use of housing credit in rural America. Analysis is also being initiated to determine the impact of recent energy shortages and related price increases have had on total shelter costs and the influence of such increased costs on the ability of low-income family to finance needed housing.

Differences in Housing Credit Terms and Usage between Metro and Nonmetro Areas in the United States, 1971. AER 305, 1975.

"Housing Patterns Affecting the Rural South," Speech given at the "Quality housing environment for rural low-income families" workshop at Clemson University, 1975.

"Vacant Housing: Is It Adequate and in the Right Places?" ERS Statistical Bulletin No. 536, ERS, USDA 1975.

"Special Federal Programs for Rural America: The Housing Example," EDD working paper 7604, 1975.

Housing 1970: Differences Between SMSA's and Non-SMSA's by Region with State Data. AER 230, ERS, USDA 1972.

Household Income--How it Relates to Substandard Housing in Rural and Farmers Home Administration Areas, by State and Race, 1970. AER 287, ERS, USDA 1975.

"Housing Quality Changes in Growing and Declining Countries, in Nonmetro and Metro Areas, 1950 to 1970," Draft manuscript, ERS, EDD 1977.

"Goal: A Decent Home for Every American Family--Accomplishment, Status, Problems, Rural America," Draft manuscript, ERS, EDD, January 1977.

Contact

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Illegal Aliens and Immigration Policy

Issue

Concern has been expressed during the last few years over the number of illegal aliens entering and residing in the United States. USDA is a member of the Domestic Council Committee on Illegal Aliens, an interagency task force established to examine the illegal alien situation.

Background

While exact numbers of illegal aliens are unknown, estimates range up to 8 million. Their impact on the economy and unemployment has yet to be determined. However, many believe that illegal aliens are creating a series of problems in communities where they live, involving welfare, health, education, and housing. Some believe that they are a threat to the U.S. labor market, limiting employment opportunities and wages for U.S. citizens. Since these workers often seek employment in low-skilled and low-wage jobs, agriculture may be affected.

The Domestic Council Committee on Illegal Aliens was supposed to develop a comprehensive approach to the issue and making policy recommendations to the President. The Committee report stated that illegal immigration is a serious and growing problem which significantly impacts on community-related activities and the labor market. The report stressed that the illegal alien issue is ultimately an issue of immigration policy and that a priority effort should be made to develop a more effective and comprehensive policy.

The Committee's recommendations:

1. The illegal alien issue should continue to be directed and coordinated at the highest executive level;
2. The Executive Branch should propose legislation relating to hiring of illegal aliens and immigration procedures;
3. The Immigration and Naturalization Service and the Department of State should receive top priority in resource allocation for the administration and regulation of this issue; and
4. The Committee and Federal agencies should initiate and support a broad research program to determine the nature of immigration-related problems.

Role of ERS and USDA

The Department of Agriculture as a participating member of this committee, USDA will continue to be responsible for related research and staff work. Policy decisions relating to the illegal alien issue and

immigration policy will occur most probably through legislative procedures directed from the White House rather than Department levels. However, the Department will participate in these procedures through its involvement in the Domestic Council Committee. ERS personnel have participated in Committee activities, including preparation of the Committee report.

Research

ERS has no research underway on the impact of illegal aliens on agriculture.

Contact

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Public Service Employment Funding and Nonmetro Unemployment

Issue

Under the current Public Service Employment Program (PSE), Federal monies are transferred to State and local governments during periods of high national unemployment. A major issue important to rural people has risen out of the public service program since it started in 1971. The issue centers on the share of program funds received by various local governments. Many public officials and citizens in small rural governments have frequently charged that they have not received a fair share of funds, given their unemployment levels and need for improved public services.

Background

Most public service jobs are funded under Titles II and VI of the Comprehensive Employment and Training Act of 1973, as amended. The primary purpose of this program is to reduce unemployment quickly by hiring the unemployed to work for State and local governments, but the program has multiple objectives. The funds are to provide needed public services which local governments cannot provide with local tax monies. In addition, the jobs are to be designed to provide on-the-job training to enable workers to move into permanent employment in either the public or private sector after the public service jobs are terminated.

Options

Although some improvement apparently has been made in reducing inequities in the allocation of public service employment funds between metro and nonmetro areas, USDA needs to continue to monitor this important program to see if rural areas are short-changed on funds. Should discrepancies persist, USDA might want to propose administrative changes to the Department of Labor in the way funds are allocated and/or changes in the law. With the national unemployment rate at 8 percent and the unemployment rate for nonmetro areas about 7 percent, interest will continue to be high for maintaining or even expanding the current public service program.

Role of USDA

This program is administered by the Department of Labor. USDA does not have direct responsibility for the administration of the program, but it has a responsibility to rural residents to see that they have equitable access to program funds.

Research

ERS research shows that the claims of a disparity in the distribution of public service employment funds were well founded during the first years of the program. Nonmetro areas, as a group, did not receive funding shares commensurate with their share of the national unemployment in 1972 and 1973. On the other hand, the research suggests that some of the disparity evident in the 1972-73 allocations may have been corrected by 1976.

Contact

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Health Issues

Issue

In recent months, health analysts have moved beyond the stereotyped response that the most important rural health issues are maldistribution of physicians by geographic area and specialty, and the high cost of medical care. These are documented, important symptoms. New, innovative procedures to alleviate symptoms through adjusting the underlying causes are presently being added to the set of conventional medical care resources. In fact, there is strong support for drastic adjustments resulting in National Health Insurance. But, the initial, important debates will likely center on amendments to the Medicaid and Medicare legislation (Title XIX of the Social Security Act) passed in 1965. More specifically, attention will center on reimbursement procedures which are alleged to penalize rather than reward physicians for practicing in medically under-served areas. Also, the procedures do not permit direct reimbursements to non-physician health extenders, such as physician assistants and nurse practitioners. Persons in the smaller rural communities may be able to attract only these new types of health professionals.

Background

Whichever issues emerge, they represent attempts to solve the basic health related problems which can be categorized as follows:

Problems adversely affecting health care:

Shortages: manpower, buildings or equipment (over 1,000 geographic areas in the U.S.)

Barriers to care: financial, geographic, transportation, ethnic

Disincentives distorting utilization and manpower patterns: benefit and reimbursement formulas and administrative procedures

Problems adversely affecting health status of population:

Environmental conditions: air and water pollution, unsanitary housing, badly engineered roads, occupational hazards

Lack of information about:

Relation of life style to ill health: diet, exercise, smoking

Availability of health care resources and how to use them

Problems adversely affecting implementation of existing programs:

Barriers to rural participation: difficulties in attending meetings, lack of constituency, invisibility, need for orientation

Ignorance of options and lack of technical assistance

Lack of an adequate data base

Fragmentation, lack of cooperation and oordination, and the piecemeal approach.

Options

The Secretary has the option of having USDA play a passive role in health matters, carrying out its own programs unilaterally and responding only to requests for information and cooperation. Or, it can promote cooperation and coordination with HEW on health programs and call attention to the need to revise legislation or regulations that, while suitable in an urban setting, would aggravate the health problem in a rural setting.

Role of ERS and USDA

Health is primarily the responsibility of the Department of Health, Education and Welfare, but there are two ways USDA is involved: (1) Through Extension Service, Food and Nutrition Service, Soil Conservation Service (to name a few agencies), USDA has responsibilities and funds that directly relate to the prevention and educational phases of the health problem. (2) By virtue of the leadership role vested in the Secretary by the Rural Development Act, USDA can act as the spokesman for rural peoples and communities on health matters. Expertise for this role is available through the Rural Development Service, the Economic Research Service, and the Cooperative State Research Service.

Research Available or Underway

ERS is expanding its research capacity in the rural health field. These new resources need to be used to (1) provide the background papers needed by USDA officials in determining policy, (2) improve the information base by working with data collectors to see that needed rural data are collected and organized in a meaningful manner for rural health analysis, and (3) detect the changing patterns or existing conditions that must be considered in solving rural health problems. Informal exchanges of ideas with personnel in HEW's health planning and community services bureaus have indicated that the greatest needs are for (1) a more useful operational definition of rural as related to health resources (dollars, food, training) (3) dissemination of analytical information to HEW, USDA personnel, and local committees as to what is going on, its location, and what resources are available so that health programs can be better coordinated, and (4) studies that show the impact of health and health related programs on the characteristics of major types of communities.

When health policies and associated programs are being formulated, ERS could alert USDA policymaking officials when action should be considered and provide them with the information they would need in coming to a decision. Due to the lack of an adequate rural health data base and a lack of any long history of such type of analysis in USDA or elsewhere, this service would at first be somewhat sketchy.

A series of reports to provide background information within the health planning framework is being developed. A Profile of Comprehensive Health Planning areas has been published. A report on medical Critical Health Manpower Shortage Areas is being published. Patterns of Population Change in Health Service Areas, and a working paper on "What is Meant by Rural in Relation to health" are in preparation. Reports on the economics of ambulance service, health service utilization patterns, and congregate meals for the elderly in Oklahoma or Arkansas (such low budget programs substitute for some hospitalization) are being prepared. Projects are underway to provide criteria for selecting between options for health care delivery in a shortage area.

Contact

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Volunteer Rural Community Service

Issue

Many rural areas rely on volunteers to supply needed services to the local community (e.g., fire and ambulance service). Thus, the true magnitude of services provided in the community is understated in local government expenditures. This has important implications for rural areas under the various Federal and State aid programs (e.g., Federal revenue sharing) that distribute aid in whole or in part on the basis of local tax effort. Some changes in such plans could make them more equitable for rural areas.

Background

Community development people have long recognized the significance of voluntarism. The most recent comprehensive survey of voluntarism was commissioned by ACTION and conducted in April 1974 by the Bureau of the Census and its Current Population Survey. The results indicated that there were approximately 37 million volunteers over age 13 in the U.S. for the year ending April 1974. This represents about one-fourth of the population over the age of 13. Volunteers averaged 9 hours per week in their projects, equivalent to 3.5 million people working full-time for 1 year.

The use of volunteers by local governments has importance for national policy. The use of fees by lower levels of government can distort the equity of distribution of any revenue-sharing funds passed down by higher levels of government on the basis of distortion formulas tied wholly or in part to relative tax effort to the various local governments. The present Federal revenue sharing program contains this bias. Because no adjustment is made for the use of volunteer labor, allocation formulas which include a measure of relative tax effort discriminate against communities using volunteer labor and in favor of those using paid inputs. Volunteerism in government is predominately a phenomenon of small rather than large communities.

The current allocation procedure fails to take into account the cost of inputs which are not purchased with tax revenues. The most important of these neglected costs is the opportunity cost of volunteer labor. Because of this, it is suspected that communities and services making use of volunteers are discriminated against. By ignoring the opportunity cost of volunteer time, the smaller communities receive less in revenue sharing than similar communities with paid service workers.

Similar incentives and disincentives exist both across services and in the choice of production techniques. When funds are distributed on the basis of a formula which includes tax effort, one actually has a program which subsidizes the production of those services which require purchased labor and capital. Programs utilizing volunteer labor become relatively more expensive in the eyes of the public and less of these services are produced. Similarly, the public has an incentive to shift from a

production technique requiring volunteers to one utilizing paid labor. This may actually lead to a net welfare loss for society as a whole.

Alternatives or Options

Rural interests should become more articulate in pointing out such possible biases in shared revenue plans. USDA can advocate that this issue be addressed when Federal, aid formulas are designed. Specific areas needing research for policy purposes include: (1) The problem of imputing a value to voluntary labor entering into the production of government services at the local level and the implications this has for alternative aid formulas. (2) Developing better information about who volunteers and for what reasons. (3) Studying a particular service, such as fire departments, in a number of various-sized cities to learn more concerning the effects of community characteristics on the amount and kind of volunteer work undertaken. (4) Developing better information on how to facilitate and guide the forces of voluntarism (to aid the governmental units themselves and agencies such as the Extension Service). ERS has researched the broader implications of the entire problem area and plans to study the third questions in greater detail. Research at Ohio and Tennessee within the land-grant system is exploring the first question with respect to selected public services.

Research Available or Underway

"Voluntary Labor and Nonmetropolitan Government: Some Initial Considerations." Paper delivered at the annual meeting of the American Agricultural Economics Association, August 18-21, 1974, (Mimeographed), 18 pp.

"Volunteerism and Rural Community Services," in Methodological Considerations in Researching Community Services in the Northeast, New Jersey Agr. Expt. Sta. Bull. 836, September 1975.

"Toward an Economic Model of Voluntarism: The Case of Participation in Local Government," Journal of Voluntary Action Research, January 1977.

"Voluntarism and Revenue Sharing: Considerations for Local Government," Journal of Community Development Society, Spring 1976.

"Federal Revenue Sharing: Some Allocation Findings and Implications for Rural Communities." Paper delivered at the annual meetings of the American Agricultural Economics Association, August 18-21, 1974, (Mimeographed), 15 pp.

"Voluntary Effort as a Tax Substitute in the Revenue-Sharing Allocation Formula," Southern Journal of Agricultural Economics, July 1976.

"Nontax Financing and Support for 'Community' Services: Some Policy Implication for Nonmetropolitan Community Services Research--1977.

ERS plans to profile communities in the Northern Great Plains regarding the volunteer input to public services. This is being done as a part of the "Energy Project."

Contact

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